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SOVIET UNION

USSR Said To Agree on Beijing as Venue for Summit

HK0511094488 Hong Kong AFP in English
0931 GMT 5 Nov 88

[By Patrick Lescot]

[Excerpts] Beijing, Nov 5 (AFP)—The Soviet Union agrees on the choice of the Chinese capital for an eventual Sino-Soviet summit, the first in nearly 30 years, Soviet and East European sources said here Saturday.

Chinese Communist Party chief Zhao Ziyang said Friday that Soviet leader Mikhail Gorbachev "wants very much" to meet Chinese leader Deng Xiaoping and that a summit "could be held in Beijing...in the first half of next year."

The NEW CHINA NEWS AGENCY said Mr Zhou also stressed to a group of Japanese businessmen here that prospects for a summit, a possibility first mentioned last month by Mr Deng at a meeting with Finnish President Mauno Koivisto, would depend on progress in finding a solution to the Cambodian conflict.

The news agency quoted Mr Zhou as saying that visits between the foreign ministers of the two countries would make clear the Soviet Union's intentions in encouraging a Vietnamese troop withdrawal from Cambodia.

[Passage omitted]

Soviet and East European sources here said the Kremlin agrees on the choice of Beijing for a summit and views such a meeting as the last step in the normalization process between the two communist giants that began in 1982.

Diplomats here said Saturday that the choice of Beijing and not Moscow for the first Sino-Soviet summit since 1959 would give China a boost in international prestige and avoid protocol problems for Moscow.

Holding the summit here would prevent the Kremlin from becoming embroiled in protocol difficulties over Mr Deng's "non-status," they said.

[Passage omitted]

"If protocol were to be respected in Moscow," a Western diplomat said, "than President Yang Shangkun or Mr Zhao would have to meet with Mr Gorbachev."

[Passage omitted]

In Beijing, Mr Gorbachev could meet Mr Yang or Mr Zhao but he would also be free to hold talks with Mr Deng, who removed himself and other members of the "old guard" from positions of power at a party congress in October 1987.

"For Mr Gorbachev, the practical approach won out over protocol," an East European source said.

By having Mr Gorbachev come to China, Mr Deng would not have to endanger his health with a strenuous trip to Moscow, observers said, and the move would also allow China to "save face."

The Chinese authorities would be able to let the population know following the Sino-Soviet split of 30 years ago that "it's the Soviets who are returning, not the Chinese apologizing," a Western diplomat said.

Most Chinese over the age of 40 still remember the harsh Maoist propaganda about "treason" by the Kremlin when it recalled all of its 1,390 technical experts from China in 1960.

Hosting the summit in Beijing would also allow China to join Washington and Moscow in a "triangle" of world power, and further prevent the superpowers from stealing the spotlight, a diplomat said.

The realization of a summit, however, depends upon a "smooth exchange" of visits by Mr Qian and Mr Shevardnadze, Mr Zhao said, suggesting that the return visit by the Soviet diplomat might take place in January.

The brevity of Mr Qian's trip to Moscow makes it appear as if it will be a "working visit" in preparation for the summit, Western diplomats said.

They said Mr Qian is expected to press the Soviets for a quick withdrawal of Vietnamese troops from Cambodia.

NATIONAL AFFAIRS, POLICY

Major Problems With Contract Management System

40060065 Shanghai SHIJIE JINGJI DAobao
in Chinese 12 Sep 88 p 11

[Article by Li Zhangzhe 2621 1625 0772 of the General Office of the State Commission for Restructuring the Economic System: "Major Problems To Be Solved for the Perfection of the Responsibility Contract System"]

[Text] 1. The base issue of the contract responsibility system. Currently, contract base is approved in accordance with the amount of profit delivery in the previous year. Because of this, the base is set higher for those enterprises whose taxes and profit delivery increased in the previous year (or the past few years) whereas the base is set lower for those enterprises which have made little profit or suffered losses in the previous year (or the past few years).

2. The divorce of external and internal contracts. Some contract enterprises fail to break down contract quotas to the level of basic production units and producers, and others fail to reform internal systems accordingly, resulting in the divorce of external contracts from internal contracts and adversely affecting the fulfillment of contract quotas.

3. The difficulty of making loan payments. Since some enterprises are no longer allowed to make before-tax loan payments while having to assume heavy tax burdens, the loan repayment ability of enterprises is very weak. And the burden of loan payment directly affects enterprises' technological transformation, causing an increasing threat to enterprises' future productive forces.

4. The issue of raw material supply. Many enterprises "buy raw materials at high prices and sell their products at moderate prices," and contracts provide no concrete stipulations on the price hikes of raw materials.

5. Foreign trade enterprises suffer from variable exchange rates. The variation of exchange rates makes it difficult for some foreign trade enterprises to fulfill the goals of contracts.

6. The contracting environment is unstable. Changes in leadership, the merger and dissolution of departments, and the promulgation of new policies all have indirect influence on the fulfillment of contracts.

7. The content of contracts needs to be perfected. The terms of some contracts are vague. For example, many contracts have very strict terms on profit delivery but are lax about enterprises' other economic indexes such as quality and the growth of working capital. Contrary to

this, some enterprises make their contracts so specific that their contracts become administrative and managerial, which is not good for arousing the enthusiasm of enterprises.

8. The issue of contractors. Some contractors have no representation. For instance, when the department in charge of enterprises offers a contract and the financial and tax departments refuse to recognize its validity, the enterprise which accepts the contract will be caught in a dilemma. In some areas, contractors have become pluralized. However, since there is no concrete regulation on the responsibility, obligation, and right of each contractor, whenever a contract enterprise wants to contact a contractor to negotiate about something, contracting departments will shift responsibility onto each other.

9. Workers' status as master of the nation cannot be demonstrated. Most contract evaluation committees do not include workers' representatives, and all issues in the process of a contract are basically decided by departments at higher levels.

10. There is no definite answer to the question of whether or not party, government, and labor organizations should be allowed to offer or accept contracts.

11. There is too much administrative intervention. Despite the fact that enterprises have implemented the contracted responsibility system, some administrative departments still use their power and certain preferential policies and follow the old way to exercise "administrative economic intervention" in enterprises.

12. There is not enough competitive mechanism. In some places, contracts are assigned to enterprises or awarded by orders or through internal connections.

13. Contractees face all kinds of pressure. Contractors always worry about the time to issue bonuses to contractees. Complicated personnel relations make it difficult for contractees to perform their work. A few contractees and their families have been beaten, and public security departments have failed to adopt effective measures to protect contractees.

14. The problem of placing surplus labor. Since enterprises implemented the contract system, labor has been rearranged in a better manner and about 10 percent of the workers have been laid off. How to help them find a job is a thorny issue facing contract enterprises.

15. The legal mechanism leaves much to be desired. 1) The imbalance of the responsibilities, rights, and interests of the contract offering and accepting parties. Since enterprises are on the passive side, their responsibility, rights, and interests are determined by the contractor and stated relatively clearly. Since there is no higher department to restrict and supervise the contractor, its responsibility, rights, and interests are relatively vague. So whenever there is a dispute, the contractor always

wins. 2) The alteration of contracts. Some contractors unilaterally violate agreements, alter contracts, or even terminate contracts, but since legal departments do not consider the responsibility contract an economic contract, provisions on economic contracts do not apply to disputes over responsibility contracts. Therefore, there are no rules to go by in the alteration of contracts.

16. Profit and risk mechanisms are uneven. At the present, contract enterprises' responsibilities are much greater than their rights or profits.

17. The influence of labor market. Since the labor market is still in the making, contract enterprises cannot choose and hire contract laborers on the market as needed, thereby reducing labor sources.

18. The expansion of consumption funds. Since contractors do not have a correct estimate of enterprises' potential before the signing of contracts, enterprises' contract bases are set too low. In order to stimulate workers' enthusiasm, some contractors raise wages and bonuses by large margins. All these have caused consumption funds to expand.

19. The relation between corporations and contract enterprises. The rise of corporations has cast several influences on the development of contract enterprises, which also concerns the issue of restructuring and reorganizing enterprises. Do contract enterprises have to be "incorporated" during the period of a contract? How well the relation between corporations and contract enterprises is handled has a direct impact on the establishment of corporations and the fulfillment of responsibility contracts.

20. The issue of short-term action on the side of contract enterprises. Contracts are binding on contract enterprises, but nobody can really guarantee that enterprises' actions will not become short-lived. The phenomenon that enterprises overuse their equipment and manpower still exist.

21. The invisible ceiling of wages and bonuses. All responsibility contracts stipulate that enterprises' wage bill and economic returns may increase in tandem, but the restriction of wage regulatory and bonus taxes have put an invisible ceiling on enterprises' wages and bonuses, making it very difficult to adopt piece rate and fixed-quota wage systems in enterprises.

22. Enterprises' views on "assuming total responsibility for progressive growth and retaining a percentage of excess profits." Enterprises think that this system is not conducive to the development of enterprises. They think that either "assuming total responsibility for progressive growth and retaining all excess profits" or "assuming total responsibility for basic output and retaining a percentage of excess profits" should be adopted.

23. The issue of merger of contract enterprises. After a merger, both parties of a merger face the same question of whether or not the original contract is still valid or needs to be revised. Failure to solve this problem will adversely affect the development of the responsibility contract system and enterprise incorporation.

Economists, Researchers Discuss Mid-Term Economic Reform

40060102 Beijing JINGJIXUE DONGTAI
[ECONOMICS DYNAMICS] in Chinese
No 8, 5 Aug 88 pp 1-8

[Collection of articles by Zhang Zhuoyuan 1728 0587 0337, et al.: "Ideas for a Mid-Term Plan for the Restructuring of the Economic System"]

[Text] Recently, comrades from theoretical research institutes and practical work departments have drawn up some study reports on the country's mid-term economic reform program. They do not share the same viewpoint. In the following, we offer our readers excerpts of their different ideas on the mid-term program.

Implement Thorough Reform To Promote Economic Stability

Zhang Zhuoyuan

In these eight years, we should emphasize reforms which will help stabilize the economy in the first three, and take bigger steps in the last five years to fundamentally change to a new system and further promote economic stability.

I. Reforms in the First Three Years (1988-1990)

A. In the first 3 years (1988-1990), to stabilize the economy, we should: (1) control the rate of industrial growth—preferably stabilizing the growth rate at an average of 8-10 percent; (2) manage inflation—we should reduce the rate of price increase attributable to excess money supply to below 3 percent and limit the annual price increase to no more than 10 percent, using the remaining 7 percent price increase to straighten out the price relationships; (3) control the issuance of money and limit the annual rate of increase to around 12 percent; (4) strive to raise the economic benefits—financial revenues should increase faster than prices, and actual production and circulation costs should decline somewhat rather than increase year after year.

B. The contents of reform in the first 3 years are as follows: (1) Improve the macroeconomic control mechanisms, break down and change the inclusive government functions, streamline government organization, adopt the double entry budget system, remedy financial deficits through bond sales rather than bank overdrafts, give the central bank independent status and functions, and operate the specialized banks as enterprises. (2) In

the area of enterprise reform, the emphasis is on broadening the contract system, and prepare to phase out the contract system and phase in the stockholding system. Profit and taxes should be separated, and we should require the payment of taxes before loans are paid off and profits are distributed. New entrepreneur selection and evaluation mechanisms should be set up in the contract system. We should establish state-owned asset administration organs according to the principle of separation of the government's macroeconomic control function and its function as property owner, and set up the corresponding state-owned asset administration system to clarify and assess the value and take stock of the properties. (3) In the area of market reform, on a limited scope, we should adjust some prices (raise the contract procurement price of grain, for example), and decontrol other prices (decontrol the price of some industrial capital goods whose supply-demand conditions are not too tight). At the same time, we should actively promote the healthy growth of the market, draw up market regulations, and establish a market for capital goods as soon as possible. We should also make plans to set up a futures market for agricultural products and establish a special agricultural product fund to serve as a state-run commercial reservoir. We should accelerate the healthy development of the fund markets, including the short-term interbank loan market and the stock and bond markets. The labor market, especially the rural labor market, should gradually spread out, and experiments with the commercialization of housing and rent reform should be accelerated. (4) In the area of rural reform, the emphasis is on giving impetus to the practice of fairly centralized rural land management, and we should encourage rental or out-right transfers and the development of cooperative farms, joint-stock farms, and family farms. We should reform the rural circulation system and banking system to facilitate the development of the rural commodity economy. Township enterprises too should become less attached to the township government and should try to operate independently and adopt the stockholding system.

II. Reforms During the Last Five Years

Conditions in the last five years should be better than the first three years. The unstable elements in the economy basically should have been eliminated by now. Some major steps can be introduced in succession at this stage to gradually establish the lead role of the new system. Mainly: (1) because conditions are ripe for price reform, we must seize the opportunity and, category by category, step by step, use a combination of price, tax, financial, and banking measures to turn the distorted planned prices around, and then, in accordance with the concept of "first adjust, then decontrol," we can decontrol prices and merge the double-track system into a single-track market system. (2) As the distorted prices are being straightened out, and as external conditions improve to allow enterprise to operate independently and take care of their own profits and losses, enterprises can make the transition from the contract system to the stockholding

system, and property rights can be clearly delineated to fundamentally change the enterprise management mechanisms. (3) Based on the accomplishments of market and enterprise reforms, intensive reform of macroeconomic controls can be carried out, and it is hopeful that other indirect control systems can be established at this stage.

Target the Market Economy, Focus on Price Reform, Make Enlivening the Large and Mid-Sized Enterprises the Priority, and Coordinate a Complement of Reforms

Wu Jinglian [0702 2417 8834] and Zhou Xiaochuan [0719 1420 1557]

In this eight-year program, reforms can proceed in three stages. The first stage is the steady first step (year zero to one). We should adopt effective measures to control total demand, and at the same time, watch for the opportunity to modify the economic structure and increase supply. The emphasis is on strengthening the system of market organizations, adjusting the improper profit relationships, and mitigating serious conflicts in the economic life. The second stage is where we fundamentally cross over to a new track (years two to four). The complete set of reform will proceed mainly in two areas: (1) Eliminate the distorted market parameters and lay the foundation for the unified, effective market mechanisms. (2) Establish a new system and a new order of organization which meet the needs of the development of China's commodity economy. This entails reforming the enterprise system, stipulating the ownership rights of publicly-owned assets, developing various intermediary economic organs, and setting up a modern economic system. This is the period of decisive battles for reform. The third stage is for consolidation and perfection (years five to eight). The emphasis is on speeding up the decontrol of the fund and labor markets, and at the same time, we want to help the real estate market and commodity market settle into maturity, help the government's administrative system further adjust to the market economy, and design the mechanisms to let enterprises operate independently, take care of their own profits and losses, compete freely, and establish the superior and eliminate the inferior.

I. Price Reform and the Redirection of the Market Is Inevitable, nor Can They Be Delayed

The objective of the restructuring of the economic system is to establish a general mold to "let the state regulate the market and the market guide enterprise." The market is the nucleus of the entire economy. Without the market mechanism as a foundation, the new system cannot be established, nor can it function effectively. As we abolish mandatory planning, if we do not promptly decontrol prices and set up a market, all of society's economic activities inevitably will plunge into chaos. In this respect, the Soviet Union and some Eastern European countries have learned a hard lesson. In fact, to try to enliven enterprises before the market is set up, the government must delegate power and yield profit to the lower levels and implement the contract

system in enterprises, departments, as well as local governments. But the contracts are not standardized agreements, and as far as enterprises are concerned, everything is determined by negotiations with the authorities; there is no competition in the real sense. This inevitably causes enterprises to adopt short-term behavior and government to rule enterprises not by law, but by man. Contracting with departments and local governments can only reinforce market monopoly and segmentation and create an upward spiraling mechanism. These are the root causes of decline in economic benefits and of economic disorder. Therefore, the whole program should be led by price reform and the establishment of a market.

II. Create a Good Environment for the Smooth Implementation of Coordinated Reforms

Is a proper environment the prerequisite of major, comprehensive reform? This has been one of the hotly debated issues in economic circles. Over the years, its necessity has been confirmed and denied repeatedly, but facts still prove that excess overall demand inevitably leads to deterioration of economic conditions, making it impossible for any kind of reform measure to be implemented or to achieve the anticipated results. No reform attempt to convert to a market economy in an inflationary situation has ever been successful anywhere in the world. At present, we have three possible choices of relationship between price reform and the macroeconomic environment: one, ease the money supply, delegate authority, and give up profit, but control prices; two, ease the money supply and decontrol prices; three, control the money supply and decontrol prices. The first option necessary will cause the economic structure to deteriorate and lead to an acute shortage of goods and materials, and economic growth will stall. The second option will inevitably cause the entire national economy to lose control and lead to a political crisis. Only the third option has any possibility of success. Of course, it will be risky, but dragging on will only increase the cumulative risks. The only way left is for us to adopt very effective measures to stabilize the economy and take bigger steps to push the reform forward.

III. Price Reform Is Crucial. It Is a Necessary Condition If the New System Is To Function Effectively, But It Is Not a Sufficient Condition; Therefore a Complete Set of Reforms Is Essential

We must always pay attention to the complete set of reforms in the above three links. Concurrent with implementing price reform, we must also proceed with enterprise reform and reform of the macroeconomic adjustment mechanisms. Theorists, however, are divided on the issue of how to handle enterprise reform. China should avoid the way of self-government of enterprise workers, already proven by Yugoslavia to be a mistake. Enterprise reform should move in the direction of the stockholding system. In the reform of macroeconomic adjustment mechanisms, the government primarily

should assume new functions, not simply give up its duties. For a successful reform, it is important that we have a strong, honest government with modern ideas.

Synthesize and Complement, Push Ahead In Full Force

State Planning Commission, Problems Group

I. The Mid-Term Goal and the General Outline of the Restructuring of the Economic System

The primary goals and the general outline of the reform in the next eight years are as follows:

- With the perfection and development of the contract system, leasing, and other operation formats, we should proceed to promote the stockholding system gradually to enable most enterprises to really take care of their own profits and losses.
- We should begin to set up a fairly sound market system. We should change the planned allocation and distribution system to bring the capital goods into market circulation in a variety of ways. We should further develop short-term fund markets, open up long-term fund markets, and expand the foreign exchange regulation market. Key regional labor and services markets should be opened up.
- Macroeconomic management should shift the emphasis from regulating and governing enterprises to regulating and governing the market. We should establish an indirect regulation and government system whose goal is to achieve overall balance and structural harmony and whose principal means include the legislated industrial, financial, and banking policies.
- Upon clearly delineating the administrative rights, financial rights, and property rights, we should strengthen the different levels of administrative and regulatory systems which share the division of labor under the central government's unified leadership. The central and local governments should set up their respective balancing and restraining mechanisms.

With regard to price reform, we should define clearly the long-term and mid-term goals. According to the overall direction of the restructuring of the economic system, the final goal is to formulate a system whereby prices are primarily decided by the market. We want to set up a reasonable pricing mechanism and a standardized price management system. To realize this goal, we still need to carry out reforms in several areas, and we need more time to implement them step by step. In the next five years, we should proceed with price reform and try to tackle three problems: (1) Smooth out the price parities among different products, focusing on the important ones. Primarily, we should adjust the prices of capital goods and agricultural and sideline products. (2) As much as possible, we should abolish the "double track

system." (3) We should change the present situation where the margin of profit is too low in the production link and too high in the circulation link.

II. Basic Scheme of the Reform of the System of Economic Planning

In the next eight years, the basic objective of the reform of the planning system is to successfully change the state's emphasis on direct management of enterprises to indirect management, change the government's primary reliance on administrative measures to reliance on economic measures and legal means to manage the economy, replace the mandatory plans for individual products with policy-oriented plans for overall value, and base economic planning on the exchange of commodities and the law of value: (1) we should gradually reduce the scope of, and eventually eliminate, the mandatory plans and planned allocation and distribution system in production and circulation and further reduce the proportion of mandatory planning in investment and foreign trade and infinitely reduce the scope of direct administrations. (2) We should set up a multi-level, open system of planned management which conforms to China's conditions. (3) We should improve indirect management at the macroeconomic level and amplify a scientific and institutionalized system of planned economic policy-making and control method. (4) We should change the functions of the planning department.

III. A Need To Further Study and Explore Several Issues

A. The issue of the reform of the large and mid-sized state-owned enterprises. How can large and mid-sized state-owned enterprises find the funds to take care of their own profits and losses is a difficult question. But failure to resolve the issue will mean that the new system will have no microeconomic basis. Today, the consensus is, future reform should bring the large and mid-sized state-owned enterprise into the stockholding system; however, we are still unclear about the mold and working

mechanisms of the stock enterprises which are controlled by state-owned stocks and how these enterprises can operate independently and be able to take care of their own profits and losses.

B. The issue of separate levels of administration. At present, there is still no consensus on this issue. Should there be two levels of administration or more? Should power be apportioned on an administrative basis or economic basis? How do we handle the relationship between giving play to local enthusiasm and establishing a nationally unified, open, and competitive socialist market?

C. The issue of strengthening indirect macroeconomic management. Concurrent with the reduction of direct control and putting the emphasis on remolding microeconomic mechanisms and developing the market, how do we set up an effective indirect macroeconomic management system to enhance the capability and effectiveness of the central government's macroeconomic controls? Today, we still have no answer to this question. The question of how to utilize all the economic levers comprehensively to regulate the economy is particularly difficult. If we cannot resolve these issues, the new economic planning system will be difficult to establish.

Focus on Enterprise Reform and Coordinate It With a Complete Set of Reforms

Li Yining [0632 0110 1380]

I. Understand the Country's Conditions

Up to now, what China has been facing is not a balanced market system. This is indicated by the fact that enterprises are still not bona fide independent producers of commodities, prices are distorted, the market is imperfect, and goods are in short supply. At the same time, the government's policy-making process is constrained; its policies are often offset by enterprise and individual countermeasures, and they have become increasingly ineffective. These situations show that the nucleus of economic reform must be the remolding of the enterprise system itself. Around this nucleus, we should gradually adjust prices, set up the market, and eventually decontrol prices and let the market set prices.

II. Reform Procedure and Measures

	First Stage (1988-1990)	Second Stage (1991-1992)	Third Stage (1993-1995)
I. Enterprise Reform	<ol style="list-style-type: none">1. Perfect the contract system and develop the entire staff risk assumption system.2. Standardize the contract award method.3. Set up the stockholding system on a trial basis.4. Launch enterprise mergers.	<ol style="list-style-type: none">1. Make the transition from the contract system to the stockholding system.2. Establish and perfect state asset management organs.3. Set up the stockholding system on a trial basis.	<ol style="list-style-type: none">1. Convert the general large and mid-sized enterprises to stock companies.2. Promote stock control system and then develop enterprise conglomerates.
II. Agricultural Reform	<ol style="list-style-type: none">1. Establish a agricultural parity price fund.	<ol style="list-style-type: none">1. Set up land savings banks or credit cooperatives.	<ol style="list-style-type: none">1. Set up specialized family farms of moderate size.

	2. Develop agricultural product shipping and sales cooperatives.	2. Popularize the agricultural goods shipping and sales cooperative system.	2. Let the family farms voluntarily gather funds to set up the "Agricultural-Industrial-Commercial Transportation and Construction Economic Association"
III. Banking Reform	3. Develop "cultivation and harvesting agencies." 1. Operate specialized banks as enterprises.	1. Some specialized banks may adopt the stockholding system. 2. Set up secondary securities market.	1. Set up industry-banking conglomerates. 2. Decontrol interest rates; the state exercises indirectly control.
IV. Foreign Trade Reform	2. A dual credit loan system (coexistence of planned credit loans and market credit loans). 1. Foreign trade enterprise contract system.	1. Foreign trade enterprise stockholding system. 2. Give the large and mid-sized enterprises direct access to foreign trade. 3. Further increase the foreign exchange retention percentage.	1. Implement a "managed, flexible exchange rate" system. 2. Foreign trade enterprises take care of their own profits and losses.
V. Financial Reform	2. Increase foreign exchange retention percentage.	Modify the tax structure and prepare for the classified tax system.	Implement the central and local classified tax system.
VI. Price Reform	Financial contracting (fixed quota contract and incremental preference contracts, etc.). 1. Stabilize overall product prices.	Adjust price parities in a broader scale and prepare for price decontrol.	1. Decontrol prices; let the market set prices and the state exercise indirect control. 2. Adopt "antitrust laws" to preserve competition and protect the consumers.
VII. Wage Reform	2. Make partial adjustments. 1. On top of the contract system, implement the total wage bill contract system. 2. Adjust government employee wages (expand the scope of promotion possibilities and raise the base wage) to adapt to price fluctuations.	1. Standardize the enterprise wage system and link wages to enterprise profitability. 2. Use personal income tax to regulate personal income.	1. With a freely circulating labor force, let the market determine the enterprise wage level. 2. Implement "an anti-corruption wage system" for state public employees and peg their wages to the cost-of-living index.

III. The Target Mold

(1) Stock companies are to be the standard form of large and mid-sized enterprises. (2) Form a complete market system. (3) Entrepreneurs and owners of family farms are to be the nucleus of economic activities. (4) The market sets prices and the state exercises indirect control. (5) Limit the government's role and expand the market's role. Let the market do what it can, and the government steps in where the market is inadequate. (6) A dual economic model: the existence of hundreds of large enterprise conglomerates and hundreds of small enterprises, township enterprises, individual operators, and private enterprises.

Speed Up Market Development and Watch For Opportunities To Straighten Out Prices Through the National Economic Management System and the Enterprise Structural Reform

Restructuring the Economic System Research Institute, Problems Group

I. Establish a Graded National Economic Management System Which Integrates Standardized, Effective, Planned Control and Market Regulations

First, we should implement standardized financial, credit, foreign exchange, wage, and goods and material contracts between the central government and the local governments. Take public finance as an example. We

should establish a uniform percentage of retention of revenues to be shared between the central and local governments. The difference between the basic revenue and basic expenditure of the local governments will determine the base revenue to be turned over to the higher authority or the subsidy they will receive. The ratio of this base to the total revenue turned over by the localities to the higher authority will determine the contract responsibility percentage. Upon the central government's stipulation of the rate of increase in total revenue to be turned over by the localities, they can simply deliver the annual amount (or receive a subsidy) based on the uniform retained percentage and the contract percentage. In this way, by utilizing the uniform retained percentage and the rate of increase in total revenue turned over by the localities, the central government can make standardized, flexible adjustments. To solve the problem of growing disparities in local revenues since the implementation of the contract system, the government can systematically stipulate an adjustment coefficient for the cities, not the provinces (districts,) based on the rate of increase in revenues.

Upon standardizing the credit loan and foreign exchange and other contracts, our planned economic management should continuously expand the scope of market adjustments by manipulating the contract percentages, quotas, and sales and purchases with vouchers to gradually phase in the indirect control system.

II. The Emphasis of Enterprise Reform Is to Foster the Role of the Market By Reorganizing and Remolding the Industrial, Commercial, and Banking Enterprises in the Production and Circulation Domain

Concurrent with perfecting the contract system, remolding the collective enterprises, and auctioning off the small state-run enterprises, by adopting a variety of measures to vigorously promote enterprise mergers, by restructuring the key elements to modify the allocation of material resources, and by reducing the number of obsolete enterprises, we can change the existing way of buying and selling enterprises on cash basis into a system whereby the buyer issues stocks based on the acquired enterprise's asset value and use this method to spur the development of the stockholding system and the capital market: (1) Split up the existing specialized industrial companies which are segregated by trade and reorganize them into several vertically integrated trans-industry enterprise conglomerates and crack down on monopolies in the industries and encourage competition. (2) Reorganize the regional, stratified, goods and materials trades in accordance with their specialized wholesale organs into several comprehensive wholesale companies to form a modern circulation network in the urban centers. (3) Reorganize the banks by categories and set up a bank to develop the central government's properties and many national urban commercial banks and local commercial banks to serve the large and mid-sized cities and set up a proper, competitive banking system.

We can set up contract management companies under a stockholding system and issue stocks to raise more capital and use that as pledge, and a whole group of contracting enterprises can adopt full-bonus, full-penalty, long-term mortgaged contracts to reduce the risks of contracting. Among contracting enterprises, we should encourage mergers and reorganization and free circulation of workers and a competitive wage system. This way, the quality of the contracting enterprises will improve by leaps and bounds.

III. Implement Price Reform by Category and in Stages

At present, the actual procurement and sale prices of most capital goods under planned allocation are far from the planned prices, and it is very difficult to verify prices for unified price adjustments. Revision of the prices of capital goods can start with the easier categories and then move to the more difficult ones. This means decontrolling the prices of mechanical and electrical equipment and building materials and other final products first, and then gradually decontrol, by categories, the prices of raw and processed materials and fuel which are controlled by local governments and sold outside of the region, and let the local governments adjust the prices of locally produced and locally sold raw and processed materials and fuel, and last, decontrol the prices of raw and processed materials and fuel which are under the central government's unified allocation. We can convert the central government's unified material allocation quota to a voucher system and set up voucher exchange centers to permit vouchers to be traded in the exchange centers. The production units should collect the vouchers and turn them over to the higher authority according to their unified allocation duties, and upon receiving the vouchers, the user units may use them to purchase materials and resources or sell them and earn the difference between the list price and the market price. This will make the planned, market, and voucher price signals very clear and will improve planned management and reduce intermediate losses and prepare the way for the eventual price decontrol.

IV. Put the Emphasis on Coordinating Differences Among the Different Interest Groups

In the course of reform, if we handle it properly, the emergence of different interest groups with different and growing demands can be conducive to social stability. During reform, efforts to maintain social harmony should emphasize the formation of an interest exchange system to adjust the interests of the different interest groups, and at the same time, we should give the interest groups more opportunities to state their interests and talk things over openly and replace the government's passive coordination efforts with the interest groups' own initiative. For example, we can give impetus to administrative cadres' desire to "change jobs" and join the ranks of entrepreneurs; we can eliminate small town and township household registration; enterprises can abolish the difference in status between cadres and

workers within their organization and permit greater mobility between the two; we can set up different grades and different categories of selective civilian mass organizations in the economic realm, and use the mass organizations' own rules to regulate their activities and encourage this type of intermediary organization to take the initiative to harmonize their different interests; we can enhance the internal arbitration capacity of the intermediary organizations to restrain the unruly behavior of individual members; we can set up peripheral government assemblies to deliberate specific policies and let the representatives from all sides communicate with one another and start a dialogue in the course of policy deliberation.

Centering Around the Enterprise System, Establish a Complementary Macroeconomic System

Research Group of the Central Party School and the Restructuring of the Economic System Study Group

I. Focus on the Creation of a Modern Enterprise System

The characteristics of a modern enterprise system are: (1) enterprises' property rights as legal entities are separated from the ultimate ownership rights in properties, and the relationships in properties are clearly defined. (2) The rights, responsibilities, and privileges of the proprietor, manager, and producer within an enterprise are specified by law and company rules. They are interdependent, and they interact with one another. (3) Enterprises' existence as legal entities can be in different forms, and typically, they are modern, stock-owned, limited liability corporations. The modern enterprise system is the form of enterprise property organization which satisfies the needs of the socialized commodity economy—it can be adopted by a socialist society as well as a capitalist society.

The enterprise contract system solidifies the relationship between the state and enterprise, and compared to the delegation of power and yielding profit to the lower levels, it is a step up. It has given impetus to the separation of the two rights and has mobilized the enthusiasm of the managers and workers. But contracting only solve the problem of how enterprises are managed. The government still dominates the negotiations, and basically government and enterprises are not separated, and enterprises do not have the financial ability to take care of their own profits and losses; therefore, we must gradually phase in a standardized legal entity system. The mold of management and the system of enterprise property organization are matters of different levels. There is no conflict between the contract system and the corporate system. On the contrary, the contract system is the point of origin for the transition to a corporate system, and the plant supervisor (manager) responsibility system is an example.

Some comrades may think that we should focus on market and price reforms. We, however, think that the lead players in the market are enterprises, especially the large and mid-sized state-run enterprises which hold the balance in the market. In a situation where enterprise property relationships are unclear, enterprises cannot become independent commodity producers, market competition cannot be launched, and prices cannot be strengthened out; therefore, market and price reforms should be implemented around enterprise system reform, not the other way around.

Under the commodity economy system, value should be the norm of the state's enterprise management. The objective is to propagate value. The old method of direct transfer and allocation is invalid. We must insist on the separation of the ultimate ownership rights and the property rights of the legal entities and the separation of government and enterprises to give the latter the financial ability to take care of their own profits and losses. For this reason, we must set up a modern legal entity system.

II. The Large and Mid-Sized Enterprises Are the Focal Point

Large and mid-sized state-run enterprises are the main factors in the national economy. In a certain sense, they can be looked at as the stronghold of the old system. The old set of mandatory product allocation mechanisms worked primarily through the large and mid-sized state-run enterprises. If we want to have a commodity economy, we have to storm the castle, otherwise, the old system will revive itself. To establish the new system in the lead role means the large and mid-sized state-run enterprises (including the circulation enterprises) must make a bona fide entrance into the commodity economic system, otherwise, even though the township enterprises and private enterprises may have become bona fide commodity producers, we still cannot say that the new system has been established.

III. Coordinate All Steps and Proceed in Stages

The establishment of a modern enterprise system involves a series of reform in government organizations, in planned investments, and in the workers' wages. It cannot proceed alone, but requires a complement of reforms around the modern enterprise system, at the enterprise, market, and macroeconomic levels. A complement of reforms means interlocking, wave-like, gradual reforms. We cannot attempt to use one key to open all locks, nor can we expect instant success.

We must focus on establishing a modern enterprise system, put the emphasis on the large and mid-sized state-run enterprises, coordinate the system, and proceed in stages to establish the new system in the lead role. With regard to enterprises, within the next eight years, we want to revamp the enterprise public-ownership system in the business-type large and mid-sized state-run

enterprises. In the market, most prices should no longer be determined by the government, and the market system basically should be complete. In the area of macroeconomic adjustments, because of the separation of the state's regulatory functions from its proprietary functions, indirect control mechanisms which work through the market basically should be in place. These are not easy goals, but if the new system is to play a dominant role in general, they must be accomplished.

In the area of market and price reforms, we feel that we must first resolve the issue of standardization of batch transactions in the market. By way of the secondary market, restricted to those who qualify, and along with the restructuring of the enterprise system in the circulation domain, we can decontrol the prices of capital goods and consumption goods in batches and in several stages. At present, we urgently need to solve the inflation problem and stabilize the economy before we can proceed with price reform. We must resolutely correct the tendency to blindly seek accelerated growth. The kind of growth which has no economic benefits and which is structurally irrational is not what we want; it can even make price and other reforms much more difficult.

Adopt a Reasonable Objective and Implement Unbalanced Coordination and Non-Standardized Complementary Reforms

Chinese People's University, Problems Group

Within the term of this program, constrained by external factors, we should not have unrealistic reform goals. We can fulfill only reasonable goals. That is, we are not ready to set up the basic framework of a new system; we can only provide the fundamental conditions which will make the setting up of the basic framework of the new system possible. Specifically, enterprises can become financially independent to an extent, and we can have an imperfect, but to some degree, open market system, and set up a limited, indirect control system.

Implementing unbalanced coordination and non-standardized complementary reforms means not insisting on uniform regional and departmental reform, but let the reform proceed at different rates according to the maturity of conditions and make sure that everything is coordinated and compatible and try to standardize them as much as possible amid the non-uniformity.

Based on the above reform concept, during the next eight years, the reform program is as follows:

1. Structural reform of the ownership system. On the whole, we want to establish a pluralistic ownership structure compatible with the production capabilities of a society at the primary stage of socialism. For this reason, we must reduce the relative proportion of the

state-owned economy. Secondly, the state-owned economy's dominant role should be "directional," not "quantitative," and what the state-owned economy should possess is "funds," not "in-kind assets."

2. Perfect the management mechanisms of the state-owned enterprises. Primarily, we want to perfect the contract system around such new elements as the expedition of the separation of government and enterprises and the formation of reasonable property constraints. The principal measures are, as much as possible, reduce the administrative interference in enterprises; implement a system of after-tax profit responsibility contract; link the contract base to the amount of state-owned assets an enterprise uses; and set up an entrepreneur qualification assessment and verification system. As price reform becomes more thorough and the government's economic management functions begin to change, state-owned enterprises should make the transition toward the standardized target mold. Primarily, we should assign the property rights over state-owned assets to the state-owned asset administrations bureau under the Ministry of Finance and forge a creditor-debtor relationship between the asset management companies under the state-owned asset administrations bureau and enterprises, and encourage trans-regional, trans-industrial asset transfers and so on.

3. Establish the market system. Within this period, we should have a fundamentally established commodities market. The key lies in price reform. Price reform of agricultural and sideline products should slowly shift from nationwide uniform price increase to setting prices separately at the regional level, and we should make corresponding adjustments in the way agricultural and sideline product prices are subsidized and the amount of subsidies. The reform of "double track" pricing of capital goods should proceed by unifying capital goods transactions by using market prices, issuing vouchers for the planned supply of capital goods, and allowing enterprises to get a rebate on the price differential by using the vouchers. The Ministry of Finance will settle the accounts centrally. At the same time, reduce the use of these vouchers in stages and by categories so that double track pricing of capital goods can slowly merge into a single track. The development of the fund market should focus on short-term fund markets, and the labor market should see to the reasonable flow of intellectual-type workers.

4. Amplify the macroeconomic management system. Within this period, we can set up the framework of a system of indirect control where the market acts as the intermediary. The achievement of this goal entails two steps. First, we should focus on the setting up of the macroeconomic control system. We should perfect the control tools, set up the control organs, amplify laws and regulations, and nurture and train personnel to enforce the law. Second, we should start the trial implementation of the new control system under which the planning, financial, and banking departments will play the lead

regulatory role. The basic direction of reform of the system of planning is in strengthening planning, coordination, and policy guidance at the macroeconomic level. The course of financial structural reform is to separate taxation from profits and correspondingly set up separate branches of routine budget and state asset budget. Reform of the banking system mainly entails setting up banking organs primarily to carry out industrial policies and operating the specialized banks as enterprises.

5. Smooth out income allocation relations. During this program: 1. We must smooth out the allocation relations according to the principle of distribution according to work and overcome egalitarianism. 2. Enterprise staff and worker income allocation should be decided by enterprises themselves. 3. Government functionaries should be paid a wage which supports an honest living, and make their income in an aboveboard manner. 4. The tax lever can be used to adjust the non-labor income allocation of those who earn excess income. 5. Set up a personal income declaration system, and let stand a limited reserve army of labor and set up a social security fund for temporarily laid-off workers and the unemployed.

Leading Economist Discusses Psychology of Panic Buying

40060126 Beijing JINGJI RIBAO [ECONOMIC DAILY] in Chinese 28 Oct 88 p 2

[Interview with Li Yining 0632 0110 1337, economist and member of the standing committee of the National People's Congress, by JINGJI RIBAO reporter Qian Fengyuan 6929 7685 0337: "Normal Market Order Essential to Economic Reform"; place and date of interview not given]

[Text] Professor Li Yining, 58, is a member of the standing committee and financial and economic committee of the National People's Congress. His major works in recent years include "An Introduction to Modern Western Economics," "Educational Economics," "Social Political Economy," and "The Science of National Economic Management." During the decade of reform, he has been a notable figure in the economic community, stressing throughout that success in economic structural reform in China hinges on success in reforming the demand system. With China's current economic situation in mind, he said, "Demand restraint must go hand in hand with an expansion of supply. Curbing demand alone will lead to trouble later." The outline plan for mid-term economic structural reform in China (the Beijing plan) was drawn up under his direction.

Question: Two or three months ago, there were runs on banks and panic buying by citizens in many cities, a sign that hidden unstable elements in economic life have now come to the fore. Although the stampede is now over, we need to review the experience and learn from it. What is your opinion on this issue?

Answer: The rush to withdraw savings and panic buying, which are now over, prove that cleaning up the economic environment, straightening out the economic order, and stabilizing the market have become our most urgent tasks. If we do not put our economic house in order and market gyrations continue, then not only will economic development run into difficulty, but economic reform itself may be stalled.

In my opinion, price hikes are related to society's excessive aggregate demand, caused mainly by the over-expansion of capital construction, an inflated institutional purchasing power, and the irrational "keep-up-with-the-Joneses" behavior on the part of some units when it comes to spending consumption funds. In moving quickly to stabilize the market, the State Council has acted properly. If its measures are implemented, the market should stabilize gradually.

Question: By allowing citizens to continue to withdraw money from the banks and engage in panic purchasing, we will only further widen the gap between supply and demand, with grave consequences.

Answer: That is exactly right. When a large amount of money is released onto the market, prices go up, prompting people to withdraw yet more savings from the banks. The result is a vicious circle. We must not take this lightly.

We know that if you ask the residents whether or not they support reform, most will say yes. But this only shows their general attitude toward reform; it tells us nothing about their tolerance for price increases. Faced with sharply rising prices, people who support reform would also take money from their savings accounts for fear that what they have saved over many years would depreciate. Therefore, an important measure in cleaning up the economic environment is to raise interest rates and offer inflation-proof savings accounts to rid people of their depreciation anxiety. Needless to say, increasing supply remains the basic cure for price increases. But the only way to increase supply substantially is to further reform and mobilize the enthusiasm of enterprises and workers for production. In other words, furthering reform and increasing supply are most critical to market stabilization.

Question: We seemed to have harped on price reform too much earlier on. In practice, no single piece of reform can be a one-man show and stand alone. Otherwise, things can go wrong. Having said that, price reform remains unavoidable. How do you see it?

Answer: There is no side-stepping price reform; sooner or later, we have to tackle it. Prices can be straightened out gradually by taking a three-pronged approach combining adjustment, control, and deregulation. Carrying out price reform in "one fell swoop" is not consistent with China's national conditions. The price mechanism is no panacea in China at the present stage; we cannot

simply wave the magic wand called prices and solve all problems. Whether or not supply and demand achieve a balance after prices are deregulated depends on the extent to which supply goes up and the extent to which demand comes down. In China, however, prices have a limited effect in the case of certain key products for these reasons. On the one hand, owing to resource restraints, the output of many products cannot be increased significantly overnight. On the other hand, since purchasers are not subject to budget restraints, the sales volume of many products would not drop appreciably. Right now, even as we work hard at straightening out the economic environment and restoring economic order, I suggest we also speed up enterprise reform, separate government from enterprises, adopt a shareholding system, optimize labor organization, and improve profitability. That way, we will create a more hospitable climate for price reform.

Question: At a recent meeting of the standing committee of the National People's Congress, I recall that you stressed the relationship between public tolerance for inflation and their confidence in the market. Are you suggesting that confronted with endless price hikes, people are much less able to cope psychologically than economically?

Answer: Yes, you can put it that way. We should fully appreciate the importance of strengthening market management and enforcing financial and economic discipline. Earlier, public confidence in the future of the market was severely eroded as a result of frenzied "official and illegal speculation and profiteering," causing market chaos. The psychological imbalance thus induced was the main reason behind panic buying. Now that we have firmly resolved to outlaw "official and illegal speculation and profiteering" and restore order to the market, that should go a long way toward reviving people's confidence in the future of the market.

If the "trend to speculate and profiteer" worsens and involves everything, destroying normal market order completely, then people will start to think differently. The result will be myopic social behavior. Thus another major aspect of our drive to put the economic house in order is to outlaw "official and illegal profiteering and speculation" and establish a normal market order.

More Cities Considered for Provincial Powers

*OW1211131588 Beijing XINHUA in English
1034 GMT 12 Nov 88*

[Text] Beijing, November 12 (XINHUA)—The Chinese central government is considering giving big cities more power and autonomy in a bid to strengthen their functions and pull down inter-provincial barriers for economic development.

Some economists are proposing that extra large cities which have been separated from the provincial economic plans and included directly in the state overall program should be turned into provincial level municipalities.

Among the candidates are Chongqing, Dalian, Wuhan, Shenyang, Guangzhou, Harbin, and Xian. Zhu Limin, deputy chief of the Big Cities Department under the State Commission for Restructuring the Economic System, said in an interview with CHINA DAILY.

Zhu said the cities have already been designated as "cities with a separate plan" and have become economic centers that are playing an increasingly important role in the country's economic development and reforms.

These cities were simultaneously given provincial power of economic management and designated as experimental bases for comprehensive economic reforms.

Four other cities have been added to the list in the past year—Xiamen, Ningbo, Qingdao and Shenzhen.

PROVINCIAL

Northwest Region Faces New Economic Expansion

*OW1211034688 Beijing XINHUA in English
1220 GMT 9 Nov 88*

[Text] Beijing, November 9 (XINHUA)—The economic development strategy for China's coastal areas has brought up an opportunity as well as a challenge to its northwestern parts in expanding their economy.

How to achieve economic expansion and narrow their economic gap with the coastal areas are major issues now facing the decision makers in northwest China.

They all agree that they should utilize their local advantages and blaze a new path of development.

Doing Away With Old Ideas

Hou Zhongbin, governor of Shaanxi Province, said, "We should first get rid of conservative ideas in guiding economic activities and end the closed or semi-closed state of affairs."

Accordingly, the Shaanxi provincial government has lifted restrictions over private and collective businesses. State-owned enterprises are now encouraged to adopt flexible ways of operation.

The government of Gansu Province welcomes investment from outside to utilize local resources and has absorbed about 1.3 billion yuan of investment this year from other provinces and coastal areas in developing its raw material industry.

Tomur Dawamat, chairman of the Xinjiang Uygur Autonomous Region, said that Xinjiang has established economic relations with 29 domestic provinces, municipalities and autonomous regions as well as with more than 50 countries and regions in the world.

The Qinghai provincial government has set up a special Qaidam Basin Economic Development Zone and it has taken measures to absorb investment as well as talented personnel to the zone, according to Qinghai Governor Song Ruiqiang.

CMD Utilize Favorable Local Conditions

Northwest China has a vast area with rich natural resources and some 140 varieties of minerals.

Its coal reserve totals 2,000 billion tons, accounting for 33 percent of the total in the country. Its water resource is in the second place among the provinces.

Policy-makers in the area now realize that in order to accelerate local economic development, they should turn their favorable conditions of abundant resources into abundant commodities so as to end poverty.

The Shaanxi provincial government, for instance, is encouraging individuals and collective enterprises to collect funds to open up the Shenfu Coalfield, one of the eight largest coal bases in the world.

Other provinces and autonomous regions are also building large hydroelectric stations, power plants as well as metallurgical and nonferrous metal factories. The local raw material industry is now flourishing in the area and a new path to prosperity is being created.

Economic Cooperation

Earlier this year, the governments of Gansu and Qinghai Provinces and the Ningxia Autonomous Region have signed an agreement to jointly set up a 1,000 kilometer special economic development zone along the Yellow River.

They will jointly undertake coal and power projects and then develop other natural resources in the area.

They have designed a plan to add a power generating capacity of 10 million kw and build production bases of nickel, alloy iron, carbon steel, lead, zinc, and antimony the end of this century.

At the same time, Gansu Province is building five small-sized experimental zones for exploiting science and technology, and Qinghai Province has started its oil and chemical industry in its Qaidam Basin.

The Ningxia Hui Autonomous Region is also speeding up the construction of four small-sized economic zones in Yinchuan, Yinnan, Yinbei and Guyuan.

Cooperation in northwest China has now expanded from production to high-technology. The Qinghai Automobile Company which makes heavy-duty trucks, for example, has recently combined with other enterprises in Shaanxi, Gansu, Ningxia and Xinjiang to form an automobile

industry group, the first of its kind in the area. The group is expected to increase its yearly production of "Qinghaihu" trucks to 30,000 in 1991 from 4,000 in 1988.

At present, there are about 10 large enterprise groups founded in the provinces and autonomous regions in the northwest.

While stepping up internal cooperation, northwest China is also eager to open wider to the outside world.

The provinces and autonomous regions are expanding their business relations with Hong Kong, Japan and other countries and regions in the east. At the same time, they are making joint efforts to re-open the "silk road" to increase the trade volume with the Soviet Union and other countries in Eastern Europe, west Asia and the Middle East. They also plan to develop their tourist industry.

In 1987, the northwest region has earned about 700 million U.S. dollars in their foreign trade, 20 times the 1977 figure.

According to economic experts, in the coming decades, northwest China will greatly increase its economic strength and it will play a much more important role economically.

Guangdong Measures To Control Institutional Purchases

HK0311105288 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 3 Nov 88

[Text] The Provincial People's Government recently issued a notice on strictly controlling institutional purchases.

The notice points out: Purchase of 29 commodities subject to special control prescribed by the state should all be approved by the Provincial People's Government, and they will be directly supplied at a fixed location with special invoice.

It also calls on state-owned enterprises to spend entertainment expenses in normal economic and business activities according to current regulations and to avoid overexpenditure; and the amount of overexpenditure cannot be reimbursed.

The notice also notes: Sanctions must be taken against units which purchase commodities in excess of quotas. In addition, a fine of 50 percent of the amount of above-quota purchase should be imposed on units which purchase 29 commodities subject to special control beyond state quotas, and a certain amount of public funds for the next fiscal year will be deducted. Quotas for the purchase of commodities subject to special control should be linked to quotas for budgetary funds.

Guangxi's Wuzhou Mayor Urges Study of Capitalism

*OW0211044888 Beijing XINHUA in English
1038 GMT 1 Nov 88*

[Text] Wuzhou, November 1 (XINHUA)—It is necessary to have a reappraisal of modern capitalism and its experiences, the mayor of Wuzhou told XINHUA in an interview.

Huang Hanyun, 58, said that Wuzhou, which is in Guangxi Zhuang Autonomous Region, is encouraging people to have a better understanding of modern capitalism.

Wuzhou is a link between eastern Guangxi and the Zhujiang Delta. With an advanced water transportation network which ran directly to Nanning, capital of the region, and the scenic spot of Guilin, the city became a significant trading port in the late 19th century.

Wuzhou used to account for well over 90 percent of Guangxi's total import and export value and it dropped to about 5 percent after 1949.

One of reasons, Huang said, was that "we cut off our relations with the outside world."

"I myself never contacted my father or my sisters and brothers who lived in Hong Kong and the United States until the implementation of the open policy," he said.

Even though about 11,000 people in Wuzhou have their relatives overseas, many feared to contact them. Even after the city became one of China's experimental zones in the open policy, many were nervous about dealing with foreign businessmen.

The city has now initiated contacts with other countries in areas covering economy, technology, and culture.

The city has sent delegations abroad and has invited foreigners, Hong Kong compatriots and overseas Chinese to come to Wuzhou. The city holds regular business seminars on foreign trade.

The State Council listed the Wuzhou City as an open coastal economic zone in March this year.

According to the city's Foreign Economic and Trade Commission, there are 18 Sino-foreign joint ventures and 12 cooperative ventures of which 4 are managed by foreign businessmen.

From January to September, 17 Sino-foreign joint ventures, cooperative enterprises, and wholly foreign-funded businesses in the city have been set up with a total investment of 22 million U.S. dollars. Of this figure, 8.62 million U.S. dollars constitutes the actual foreign investment.

Guangzhou Freezes Prices of Daily Necessities

*OW2810125888 Beijing XINHUA in English
0848 GMT 27 Oct 88*

[Text] Guangzhou, October 27 (XINHUA)—Guangzhou, a pilot city for China's economic reforms, will freeze prices for 45 kinds of daily necessities, a local government official announced today.

To be included are food grains apart from those rationed at fixed prices, sugar, pork, vegetables, fruit, cotton and cotton-made products, household electrical appliances, cigarettes, beer, automobiles, traditional Chinese medicines, coal and gas for cooking.

However, according to the decision passed at a city emergency meeting which ended Tuesday, commodities with their prices fixed by the state will be unaffected.

Commodities sold at market prices should maintain the present level.

Meanwhile, commercial departments should cut the prices of a number of goods which make large profits, the decision also mentioned.

Liaoning Economic Development for Jan-Sep

*SK2310102988 Shenyang Liaoning Provincial Service
in Mandarin 1030 GMT 21 Oct 88*

[Summary] In the first 3 quarters of this year, our province maintained a sustained and steady economic growth trend. A sample survey made by the provincial statistical bureau showed that in the first 3 quarters of this year, the province's total industrial output value increased by 11.6 percent over the same period of last year. If the output value realized by industrial enterprises at or below the village level is included, the province's total industrial output value increased by 16.1 percent. The production of major industrial products increased. The per capita labor productivity of industrial enterprises increased by 8.6 percent. The province's agricultural input increased. Grain output in the first 3 quarters of this year was expected to be higher than the same period of last year. The province's retail price index rose by 15.6 percent over the corresponding period of last year; and the volume of retail sales of commodities increased by 28.6 percent. The per capita income of urban dwellers in this period increased by 17.5 percent. If the factor of price hikes is excluded, the real increase was 0.9 percent. The per capita income of peasants increased by 29.87 percent. If the factor of price hikes is excluded, the real increase was 14.4 percent. The urban and rural dwellers' savings deposits by the end of September showed an increase of 3.87 billion yuan over the figure at the beginning of this year.

Shanghai To Auction Loss-Making Enterprises
HK0311020688 Beijing CHINA DAILY in English
3 Nov 88 p 2

[By Staff Reporter Zhang Ping]

[Text] Shanghai—A dozen collectively-owned businesses that are operating at a loss or for little profit will be auctioned off to the highest bidder in Shanghai next week.

Four of the businesses to be sold are retail shops. The other eight are factories that produce automobile parts, cosmetics, plastics and garments. The largest of these factories has total assets valued at 700,000 yuan.

A self-employed businessman bought one of the three shops sold at auction in the city last month. However, private individuals will not be allowed to bid in next week's sale. Joint ventures, as well as State-run and collectively-owned businesses, will be allowed to bid.

The auction will be in the city's centre on Shashi Road near the Bund from next Thursday to Saturday.

"The auction marks the start of the city's experiment to improve the economic results of poorly-managed collectively-owned enterprises," according to Yuan Zhangdu, director of the city's Collectively-owned Enterprises Administration.

Successful bidders will be permitted to make all of their own decisions regarding the future of both production and management at their new businesses, according to Yuan.

Firms Bid for Huge Shanghai Sewer Project
OW2910201388 Beijing XINHUA in English
1830 GMT 29 Oct 88

[Text] Shanghai, October 29 (XINHUA)—Some 10 Chinese and foreign contractors and tender groups bid today for construction of the box culvert of the Shanghai sewage project, the largest and longest ever built in China.

The box culvert is one of the 29 projects to be bid on in the sewage project, which has a total investment of 1.6 billion yuan, one-third of which is loaned by the World Bank, according to an official of the Shanghai International Tendering Company.

In today's bidding, the highest offer was over 50 million yuan and the lowest more than 26 million yuan, and the winner will be announced in two or three months, the official said.

Foreign tenders include the American Harbert Construction Co., which offered 45 million yuan jointly with the 20th Metallurgical Construction Company under the Ministry of Metallurgy.

The double-passage box culvert, one of five projects which have been bid on by Chinese and foreign bidders, is about five kilometers (km) long, and includes 16 air shafts, seven inspection shafts and other attached facilities, according to the official in charge of the bidding.

The box culvert is only one of the five projects to be bid on in the first phase of the sewage system. The other four open to Chinese and foreign bidders before December include a 2,490-meter-long submarine outfall tunnel, a 8.6-km-long box culvert, a 2.1-km-long tunnel and a pumping station.

After China's largest municipal construction project is completed in 1992, the water quality of the Suzhou River, which snakes through this leading industrial city, will be improved and pollution in the Huangpu River will be reduced, the official explained.

Sichuan Leader Views 1989 Economic Arrangements

HK1910020788 Chengdu Sichuan Provincial Service
in Mandarin 2300 GMT 18 Oct 88

[Text] Speaking at the provincial party committee's work conference, Vice Governor Ma Lin put forward ideas on the initial arrangements for next year's economic work in line with the spirit of the central work conference and in connection with Sichuan reality, proposing that this work be grasped in six respects:

First, it is essential to step up investment in agriculture and in industry that supports agriculture, to boost the reserve strength for agricultural development. Second, it is necessary to get a good grasp of steady and increased output of coal, electricity, and natural gas and promote the coordinated construction of the energy industry. He said: Next year the province should generate 1 billion more kilowatt hours of power than this year, and should strive to exceed that target. The province should produce 64 million tons of coal and 6.2 million cubic meters of natural gas.

Vice Ma Lin stressed that while promoting steady and increased output of coal, electric power, and natural gas, it is necessary to do a good job in energy conservation and reduced consumption. We must pay attention to the coordinated development of the coal, power, and gas industries.

Ma Lin said: We must do a good job in supplying the markets with consumer goods, to ensure that the price increases next year will be markedly lower than this year. The plan calls for total retail sales of social commodities of 55 to 56 billion yuan next year, a rise of 18 to 20 percent over this year.

He said: Making a success of arranging the markets requires the common efforts and cooperation of industry, agriculture, commerce, and other sectors. Next year we must make good all-round arrangements for railroad,

highway, and waterway transport, and get a good grasp of the problem of shipping goods in and out of Sichuan. We must also vigorously develop exports for earning foreign exchange next year, make all-round arrangements for local retention of foreign exchange, and continue to promote the development of the capital goods market.

Xinjiang Announces Economic Improvement Measures

HK3010062388 Urumqi Xinjiang Regional Service in Mandarin 1230 GMT 29 Oct 88

[Text] The regional industry and commerce bureau has formulated some measures in light of the current problems in the circulation field in Xinjiang, to ensure the smooth progress of improving the economic environment and rectifying the economic order. The main measures are as follows:

Strengthen market supervision and controls. At present, the focus is on stepping up supervision and controls of markets for major capital goods and agricultural and sideline products, to ensure the fulfillment of the plans for commodities under state mandatory planning and for the procurement of controlled commodities. Specialized handling of certain major capital goods is to be instituted. When necessary, price ceilings will be set for a time for fish, meat, eggs, popular vegetables, and other main non-staple foods.

Strictly check and approve companies. Apart from resolutely correcting problems of lack of separation of government and enterprise functions in the companies, companies that are affiliated to organs, units, and enterprises are prohibited from engaging in business that has nothing to do with the work of the unit concerned. Production enterprises and sales companies of township and village enterprises are prohibited from engaging in commodity business that has nothing to do with their own trade.

Resolutely crack down on official profiteering. We must deal publicly with certain major cases in this category. We must strengthen controls over trademarks and advertisements, strictly supervise the quality of marketed products, and crack down on the manufacture and sale of counterfeit commodities.

Strengthen the supervision and management of production and sales contracts for grain, cotton, sugar, chemical fertilizer, plastic sheeting, animal products, and so on. We must ensure the fulfillment of the mandatory state plans and the contract delivery quotas.

FINANCE, BANKING

Official Comments on Tax, Financial Reform

OW0311043488 Beijing XINHUA in English 1448 GMT 2 Nov 88

[Text] Beijing, November 2 (XINHUA)—One of the main targets of the reform of the financial and tax systems is to rationally distribute profits between the

state and enterprises so as to cater to the need in developing the shareholding system and enterprise groups, a tax official said here today.

Addressing the four-day Eighth International Business Leaders Symposium which ended here today, Wu Cui-lan, director of the Tax Reform Office of the Ministry of Finance, said that China will implement the shareholding system with public ownership remaining dominant and gradually standardize profit-sharing between the central government and enterprises.

Currently, she said, the various contracting and leasing responsibility systems being practised in Chinese enterprises are useful for the state in its efforts to work out an ideal system for the separation of ownership from management.

She noted that the adjustment of the profit-sharing relationship between the state and enterprises conducted in the past few years has increased the vitality of enterprises.

Meanwhile, the reforms in the taxation and budgetary management systems have brought into full play the initiative of local authorities and the leverage function of taxation, she said.

But problems still exist in China's taxation and financial management, Wu admitted, citing the irrationalities in the profit-sharing relationship between the state and enterprises, and the drastic decrease in the ratio of the state's financial revenue.

According to Wu, in a bid to further reform China's financial and budgetary management, the Ministry of Finance will implement graded tax and budgetary systems so that the financial resources directly controlled by the central authorities will be boosted and the financial revenue of both central and local administrations increased.

Taking part in the four-day symposium were about 80 industrialists from 18 countries and over 100 Chinese entrepreneurs. The symposium was co-sponsored by the China Enterprise Management Association and the WORLD ECONOMIC HERALD.

Nationwide Urban Savings Deposits Up in September

OW2810051388 Beijing XINHUA Domestic Service in Chinese 1624 GMT 24 Oct 88

[By reporter Ding Jianming]

[Text] Beijing, 24 Oct (XINHUA)— Savings deposits that once "slid down" due to panic buying in some localities are rising again thanks to measures adopted by

the State Council and banking departments. According to statistics, nationwide urban savings deposits in September increased by 2.7 billion yuan over the corresponding 1987 period.

Savings deposits are an important source of credit funds. Forty percent of the Industrial and Commercial Bank of China's loans are funded by savings deposits. Zhang Xiao, president of the Industrial and Commercial Bank of China, suggested at today's national telephone conference on savings work that branches at all levels pay greater attention to savings work in the next two months and make greater contributions to stabilizing finances.

Zhang Xiao asked branches at all levels to fully utilize the strong points of the Industrial and Commercial Bank, which has many branches manned by quality personnel and enjoys a good reputation, take advantage of the interest rate readjustment and the introduction of interests rates on savings deposits linked to the retail price index, actively develop the services of paying out wages for enterprises and housing savings, and link up supply of high-grade consumer durables with savings business. At the same time, efforts should be made to improve service, expand the service network, increase business counters, and readjust or extend business hours.

Town Residents Cash Income Statistics

HK0411111388 Beijing CEI Database in English
4 Nov 88

[Text] Beijing (CEI)—The following is the chart of town resident cash income in the third quarter of this year and that of last year on an average monthly basis, released by CSICSC (The China Statistical Information and Consultancy Service Center).

		Jul-Sep 88	Jul-Sep 87
		(person per month)	
Real income	yuan	100.74	80.42
Income of living	yuan	93.34	73.95
Payment of employee in state or Collectively-owned enterprise	yuan	68.61	59.52
of which:			
Bonus	yuan	12.45	8.05
Subsidies	yuan	9.59	8.49

Construction Bank Checks on Investment Loans

OW0111042188 Beijing XINHUA Domestic Service in Chinese 0756 GMT 28 Oct 88

[Text] Beijing, 28 Oct (XINHUA)—The People's Construction Bank of China recently began to check on credit loans offered for investment in fixed assets to guarantee the supply of funds for the key state construction projects.

After this check-up, the Construction Bank will stop offering loans for the construction projects mainly in the following six aspects: projects under construction, which are not within the scope of fixed assets investment or that of credit loans set by the state; projects under construction using bank loans to serve as capital construction funds raised by the units themselves; fixed assets investment projects using money diverted from loans earmarked for circulating funds; office building, auditorium, guesthouse, and hostel projects outside the plan; projects constructed by urban and rural collective enterprises (with the exception of agricultural, agriculture-supporting industrial, farm produce, and sideline products processing industrial, export-targeted, communications, and transport, cultural, and educational, public health, and scientific and technological projects); and projects under construction which should be suspended as stipulated in the State Council's documents. The Construction Bank also decided to immediately recall loans already offered. Currently, the six checking groups organized by the head office of the Construction Bank have separately left for all localities in the country to supervise and examine the work.

Gold Output Rising 10 Percent Annually

HK0811091388 Beijing CHINA DAILY in English
8 Nov 88 p 1

[By staff reporters Liu Dizhong and Xie Songxin]

[Text] The Chinese government has banned individuals from mining, smelting, and processing gold.

The order was contained in a circular issued by the state council last weekend.

Licences held by individual miners are also being withdrawn.

China has about 300,000 licensed private gold miners. But more people are mining the metal without any permission.

Random mining by individuals cashing in on a massive gold rush that began in the late 1970s has greatly damaged the environment and led to wasteful practices, says Xu Daquan, vice-minister of the metallurgical industry and a director of the state gold administration.

He notes 2 million ounces of gold have been wasted by individual miners in Qinghai province alone since 1982.

Some state-run mines have been plundered and some forced to suspend operations, he says.

One gold mine in Henan Province has lost 77,000 tons of ore worth 66 million yuan in the past two years.

Another mine in Shaanxi Province has reported losing 1,900 ounces of gold a year to plunderers.

Smuggling is also up. There were 4,200 cases involving 8,800 people between the beginning of 1987 and the end of June this year. More than 640,000 grams of gold, 430,000 grams of silver and 27 million yuan of illicit money were seized, Xu says.

Law and order have become a serious problem at the communities where individual gold miners live. Prostitution, robbery and gambling have become rampant there.

State Secret

China's gold output has been growing at an annual rate of 10 percent over the past decade, a senior official of the state gold administration says.

It is expected to reach 12 percent during the 1990-92 period.

The actual output is a state secret.

To maintain the pace, the state intends to boost investment, the official says. Advanced equipment and technology will be imported.

Gold production is critical to the country's modernization programme.

"The more gold we produce, the more foreign loans we can borrow," the official says.

In addition, domestic demand for gold jewellery has increased at a startling rate as living standards have gone up and the value of the yuan has fallen.

1987 Balance of Payments

OW1710194388 Beijing *BEIJING REVIEW* in English
17-23 Oct 88 pp 30-31

[Text] In 1987, China's balance of international payments moved into the black after two years of deficit. Total international income reached \$59.7 billion, and expenditure amounted to \$54.85 billion, generating a surplus of \$4.85 billion.

I. Current Account

At the end of 1987, China had a favourable balance of \$300 million on its current account.

1. Foreign Trade: In 1987, China's exports totalled \$34.73 billion, an increase of 34.9 percent on 1986. Imports rose to \$36.4 billion, just 4.3 percent up on 1986. The \$1.66 billion deficit in foreign trade was \$7.48 billion down on 1986.

The principal reasons for the sharp rise in China's exports were:

A. The depreciation of the U.S. dollar combined with the appreciation of the Japanese yen, Deutsch mark and South Korean won has made Chinese goods more competitive on the world's markets.

B. The rise in oil prices increased the value of China's oil exports by \$1.08 billion.

C. Chinese Government departments vigorously implemented various export-oriented policies which aroused the enthusiasm of many sectors of the economy.

2. Non-trade Income: In 1987, non-trade income totalled \$5.41 billion, a rise of 9.8 percent of 1986. Tourism revenue rose by \$320 million and foreign trade related transportation rose by \$200 million.

Non-trade expenditure rose 15 percent on 1986 to \$3.68 billion. Expenditure on transport increased by \$340 million, and interest payments (including service charges) increased by \$280 million.

China's surplus on non-trade income was thus \$1.74 billion in 1987.

3. Voluntary Conveyance: China received \$390 million in single-sided transfer payments in 1987, and transferred \$170 million to other countries, generating a favorable balance of \$220 million.

II. Capital Account

In 1987, capital inflow totalled \$19.17 billion, a drop of \$1.57 billion on 1986. Capital outflow totalled \$13.16 billion, down \$1.63 billion on 1986. China capital account thus had a net inflow of \$6 billion, \$60 million more than in 1986.

With 96.5 percent of the capital inflow in long-term capital and only 3.5 percent in short-term capital, China's debts have become better structured.

III. Reserve Assets

China's reserve assets (including foreign exchange and Special Drawing Rights) increased by \$4.85 billion in 1987. Capital inflow is mainly responsible for the growth of foreign exchange reserves. By the end of 1987, China's foreign exchange reserves totalled \$15.23 billion, of which the state had \$2.92 billion and the bank of China had \$12.31 billion.

Balance of Payments in 1987

	Unit U.S.\$ million Project		
	Balance	Debit	Credit Total
A. Current Account	300	40,236	40,536
1. Foreign Trade	-1,661	36,395	34,734
Exports	34,734		34,734
Imports	-36,395	36,395	
2. Non-trade Contracts	1,737	3,676	5,413

	Balance of Payments in 1987		
	Unit U.S.\$ million Project		
	Balance	Debit	Credit Total
Freight Transport	-172	1,328	1,156
Transport Charges	-282	1,186	904
Insurance	110	142	252
Port Supply and Labour Service	-166	455	289
Tourist Payments	1,458	387	1,845
World Passenger Freight	(152)	(152)	
Investment Payments	-215	1,191	976
Profit	8	2	10
Interest	-280	457	177
Bank Payments	57	732	789
Other Non-trade Contracts	832	315	1,147
Post Payments	-2	14	12
Government Payments	54	150	204
Labour Service Payments	51		51
Other Payments	729	151	880
3. Voluntary Conveyance	224	165	389
Contracts With World Organizations	24	34	58
Free Aid and Donations	-49	120	71
Overseas Remittances	162	3	166
Residents' Other Payments	86	8	94
B. Capital Contracts	6,002	13,164	19,166
1. Long-term Capital Contracts	5,790	3,950	9,740
Direct Investment	1,669	645	2,314
Direct Investment From Other Countries, Hong Kong and Macao			
Direct Investment in Other Countries, Hong Kong and Macao by China	-645	645	
2. Security Investment	1,051	140	1,191
Security Investment in China by Other Countries, Hong Kong and Macao	1,191		1,191
Security Investment in Other Countries, Hong Kong and Macao	-140	140	
Loans From World Organizations	620	90	710
Foreign Government Loans	-411	1,187	776
Bank Loans	1,665	300	1,965
Local and Departmental Loans	949	634	1,583
Deferred Payments	-47	470	423
Deferred Collections	-103	136	33

	Balance of Payments in 1987		
	Unit U.S.\$ million Project		
	Balance	Debit	Credit Total
Processing, Assembling, Compensatory Trade and Equipment Payments	229	85	314
Leasing	17	3	20
Foreign Loans	-219	239	20
Others	370	21	391
2. Short Term Capital Contracts	212	9,214	9,426
Bank Loans	219		219
Local and Departmental Loans	-112	571	459
Deferred Payments	-106	638	532
Deferred Collections	34	8,005	8,039
Others	177		177
D. Errors and Omissions	-1,450	1,450	
E. Change in Reserve	-4,852	4,852	
Gold Reserve			
Foreign Exchange Reserve	-4,722	4,722	
Special Drawing Rights	-71	71	
Funds Invested in Money Markets	-59	59	

MINERAL RESOURCES

Briefs on Gold, Andalusite Deposits; Industrial Waste

OW1411060888 Beijing XINHUA in English
0914 GMT 12 Nov 88

[Text] Beijing, November 12 (XINHUA)—Today's economic news briefs:

Gold Deposits

Three gold deposits, the largest of their kind in south China, have been verified in the northwestern part of the Guangxi Zhuang Autonomous Region recently.

Andalusite Deposit

A large andalusite deposit has been discovered in Xixia County, in north China's Henan Province.

The deposit is 30 km long and 500 m wide.

Industrial Waste

The Ministry of Chemical Industry has obtained 1.2 billion yuan in output value in the past few years by recycling industrial waste discharged from factories throughout China.

INDUSTRY

Superconductor Sales in Four Years Predicted *HK0811044188 Beijing ZHONGGUO XINWEN SHE* *in Chinese 0740 GMT 5 Nov 88*

[Report by Lu Lin (0712 2651): "China Is Expected to Commercialize Its Superconductor Products in Four Years"—ZHONGGUO XINWEN SHE headline]

[Text] Beijing, 5 Nov (ZHONGGUO XINWEN SHE)—This reporter learned from a prediction and appraisal meeting on superconductor products held in Beijing several days ago, that in 1990 China will manufacture high-temperature superconductor products called SQUID and will commercialize these products in 1992.

SQUID is the short form of superconducting quantum interference device. It is widely used for survey and calculation. The United States was the first to commercialize low-temperature SQUID. Subsequently, Britain and Japan also produced low-temperature SQUID. Its high sensitivity is beyond compare with that of ordinary calculating instruments. After the discovery of high-temperature superconductors, scientists in many countries began to enter into competition for the study and manufacture of high-temperature SQUID.

Chinese experts said that high-temperature superconductors were first used on SQUID components.

This prediction was jointly made by experts from Beijing university and the Chinese university of science and technology. (Derfei's) survey method was applied during the prediction. Thirty two experts were instructed to design 17 questions concerning the technology, organization, and management studied in connection with SQUID. Gratifying answers were obtained. The meeting pointed out that it was quite necessary for China to study high-temperature SQUID, adding that what posed a headache for those experts was the aging of superconductor films and the rate of finished products.

China has always ranked at the world forefront in the study of superconductors. A year ago, the State Council set up a specialized group to coordinate work between research organs. Higher learning institutions and research organs including Beijing University and the Physical Research Institute of the Chinese University of Science and Technology have formed a superconductor research contingent mainly composed of young people.

Industrial Growth 'Excessively' Fast in Oct *OW1011081888 Beijing XINHUA Domestic Service* *in Chinese 1532 GMT 8 Nov 88*

[By reporter Wu Shishen]

[Text] Beijing, 8 Oct (XINHUA)—The latest statistics released by the State Statistics Bureau have shown that China's October industrial production continued to rise

at an excessively fast rate, with total output value reaching 108.1 billion yuan, or an increase of 20.4 percent over the same period last year.

The total October production of 18 regions decreased somewhat, while that of Hebei, Jiangsu, Shandong, Hubei, Hunan, and six other regions increased over the previous month, according to a briefing by the State Statistics Bureau. The industrial growth rate of 13 provinces and municipalities exceeded 20 percent.

Judging from the structure of products, production of durable consumer goods such as TV sets and refrigerators continued to rise at a relatively rapid pace, but yarn, cloth, silk, wool fabric, and finished aluminium products for daily use, which are in short supply, decreased or grew by only a small margin. It is noteworthy that some processed manufactured goods and machinery products related to capital construction tend to increase by larger margins. For example, metal-cutting machine tools and trucks increased by 22.1 and 32.1 percent respectively.

Should a fast growth rate continue, it will adversely affect the stable growth of industrial production next year, according to the State Statistics Bureau. Therefore it is necessary to take strict macroeconomic measures to control production that uses raw materials in short supply, has poor energy efficiency, and produces goods that are impractical for the people's everyday use, in order to create favorable conditions for deepening the reform and developing the economy in a wholesome manner next year.

Government To Tighten Steel Product Control *HK1211005288 Beijing CHINA DAILY* *in English 12 Nov 88 p 1*

[By staff reporter]

[Text] China is going to tighten its control over steel products so as to guarantee supply to key State-run enterprises and projects, crack down on illegal dealings and "establish a new market order," according to a senior materials supply official.

Regulations will soon be promulgated to streamline steel product markets and ensure that enterprises fulfill the compulsory State plan, said Xie Minggan, spokesman for the Ministry of Materials and Equipment.

The regulations will include:

Enterprises must guarantee fulfilment of the State production and sales plan;

Only certain designated enterprises will be allowed to buy and sell specified volumes of some special varieties of steel products;

All business firms dealing in steel products will go through qualification examinations and be re-registered;

State control of prices will be tightened. Products included in the State plan will be sold at the State-set prices. Other prices will be flexible but cannot surpass the limit decided by the State.

Xie, who also heads the Bureau of Policy Research of the ministry, told CHINA DAILY that a lot of business firms dealing in production tools and equipment, especially for the manufacture of steel products, are not directly connected with production or construction. They speculate in production materials through illegal channels. This is one reason that the prices of steel products are getting higher and higher.

Meanwhile, the Ministry of Materials and Equipment has listed 10 "honest administration measures" to fend off corrosive influence from enterprises or individuals.

These measures are designed to verify State allocations, stamp out favoritism and authoritarianism, and prevent "insider" connections as well as speculation by ministry staff. Xie also revealed the State had decided early this year that materials supply and sales departments of most State Council ministries and departments would be transferred to the Ministry of Materials and Equipment.

Supply Shortages Affect Steel Production
HK0311020488 Beijing CHINA DAILY in English
3 Nov 88 p 2

[By Zhou Hongqi]

[Text] The rate of growth of steel production in China this year is unlikely to match last year's increase unless energy and raw materials supplies improve.

Supply shortages are becoming increasingly serious and are hampering production, according to Li Xiaoguang, an official of the Ministry of Metallurgical Industry.

He said that at first sight, the industry appeared to be doing well. By the end of September, China had produced 44.5 million tons of steel, a 7.84 per cent increase over the same period last year and more than three-quarters of the State-set minimum output for the year which is 56.5 million tons.

But the industry generally aims to produce more than three million tons over the State-set target and current levels of production suggest that no more than 57 million tons of steel are likely to be produced by the end of this year, just 1.5 million tons more than last year.

The increase the previous year was 3.6 million tons.

Li said that transportation difficulties were causing problems in getting raw materials into the steel-making plants and the finished products out again.

"The plants cannot operate smoothly and some even have to halt production intermittently," he said.

He pointed out that while the domestic steel industry is running short of raw materials, pig iron and scrap steel are being exported to earn foreign exchange on the international market.

"About one million tons of pig iron had been sold abroad by the end of July, double the amount for the whole of last year," he said.

Production of pig iron in China cannot keep up with steel production, he said, adding that the export of so much pig iron had led to a 35 per cent drop in pig iron stocks during the first half of this year compared with the same period last year.

The price of pig iron has gone up from 260 yuan a ton to 550 yuan (about \$148), making it very difficult for the steel plants to afford it.

He said the situation was not eased by the fact that some local governments now have the power to export more and more retrieved scrap steel in order to earn foreign exchange since the prices on the international market are higher than on the domestic.

"These local governments give foreign trade top priority and the State plan and assignment come next," he said.

The steel industry always has to cope with energy shortages, particularly in winter. This year, the ministry is asking the State to provide more raw materials and electricity and improve transportation conditions in the steel industry, Li said.

The State Council has just passed in principle a new resolution to tighten State control over the steel market in order to promote steel production and ensure the construction industry's demand for rolled steel.

Iron, Steel Production Figures Reviewed
OW1211063888 Beijing XINHUA in English
0819 GMT 9 Nov 88

[Text] Beijing, November 9 (XINHUA)—China produced 5.13 million tons of steel, 4.85 million tons of pig iron and 4.1 million tons of rolled steel last month, XINHUA learned today.

Thus, its outputs of steel, iron and rolled steel reached 49.62 million tons, 47.08 million tons and 39.3 million tons, respectively, in the first ten months of this year.

This represents increases of 7.08 percent, 4.75 percent and 7.84 percent over the same period of last year, respectively, according to an official of the metallurgical industry ministry.

He said, "If we had had sufficient electricity and coal, we would have produced more."

China's output of steel was 56 million tons last year and a total of 59 million tons is projected for this year.

Problems, Prospects for Xinjiang's Local Steel Plants

40060109a Urumqi XINJIANG RIBAO in Chinese
21 Oct 88 p 2

[Article by Lou Huiying 2869 6540 2503: "Xinjiang's Local Steel Industry—A Latecomer Trying to Catch Up"]

[Text] There was no iron and steel industry in Xinjiang before liberation. Only after the founding of the People's Republic was the Xinjiang August 1 Steel Plant built by the People's Liberation Army under the direct leadership of Comrade Wang Zhen 3769 7201. But annual steel output was a mere 15,000 tons at the time, a far cry from what was required to develop the autonomous region's economy. Accordingly, we have been building local plants since 1958. After 30 years of struggle, much progress has been made, particularly following the 3d Plenum of the 11th CPC Central Committee. Among the major local steel plants at the moment are Hami Steelworks, Ili Steelworks, Tianlong Steelworks, Yuejin Steelworks, Bingtuan Steelworks, a ferroalloy plant, and Urumqi Fire-Resistant Materials Plant. With a total work force of more than 20,000 people, local steel plants have become a key front army in the development of the region's steel industry.

Local iron and steel enterprises are doing very well, with steadily expanding output and rising profits. Some products have broken into the international market. But there are still some areas where local steel plants fall short.

1. Not enough ideological understanding. Xinjiang's annual gross value of industrial and agricultural output is set to increase 450 percent by the end of the century. Based on this ambitious target, the region will need to produce 800,000 tons of steel in order to achieve a self-sufficiency rate of 30 percent. Yet Xinjiang's steel output is only 270,000 tons in 1988. Since only 12 years remain between now and the end of the century, the responsibility is a daunting one. Steel production is a weak link in the region's overall economy. Faced with this glorious mission, local steelworks must continue their role as a front army. On this point we have yet to achieve a consensus. Most iron and steel industries in the nation's 29 provinces and autonomous regions have developed faster and more successfully than ours. In my opinion, Xinjiang's steel industry has not grown as fast basically because we do not sufficiently appreciate the industry's position and role in provincial economic development. There have been vacillations and theory has not kept pace with practice. It is imperative, therefore, that we understand anew the importance of elevating the industry's strategic position.

2. Obsolete equipment. Owing to historical reasons, the equipment of Xinjiang's local steelworks is essentially that of the 1930's and 1940's, characterized by limited production capacity, low efficiency, poor quality, high consumption, and lack of automation. Do not automatically equate a small enterprise with inefficiency, poor quality, high consumption, inability to compete, and lack of prospects. According to relevant data, small and medium-sized enterprises account for 99.7 percent of all enterprises in Japan; 98.4 percent in the U.S., and 97.3 percent in the Federal Republic of Germany. Moreover, Italy, the leading iron and steel producer in Europe, has more small steel plants than any other country in the world. On the other hand, Italy's small steelworks take the adoption of new technology very seriously. Our local steelworks, therefore, must modernize their equipment, transform their processes, and adopt new technology continuously.

3. Xinjiang's iron and steel industry lags in economic and technical performance. Compared with local iron and steel plants across the nation, those in Xinjiang are at the bottom of the heap. The blast furnace coke ratio for 1987, for instance, was 504 kilograms per ton of iron at Danyang Steelworks in Jiangsu, compared with 784 kilograms per ton of iron at Ili Steelworks. What a difference!

4. Product quality gap. At present, the products of local iron and steel enterprises in Xinjiang are all of a relatively poor quality. They have yet to produce anything that is considered good quality by the state, the ministry, or the autonomous region, in sharp contrast to local steelworks in coastal provinces and regions.

5. Difference in mineral resources. With the exception of Ili Steelworks, all other local steelworks basically have no mineral resources. The Heifengshan mine at Hami Steelworks will be closed down this year. Mineral resources, or the lack of it, have become the biggest constraint on the expansion of the industry. What to do? For one thing, the geological department should continue its search for minerals. The government must foster the development of mining bases with appropriate measures. Right now everything should be done to speed up the development and make the most of Xiaotianhu mine. For another, we must develop mines worked by the masses. At a time when we are short of both time and funds, the development of mines operated by the masses is clearly an effective approach that has the additional advantage of enabling the masses in mineral-rich areas to prosper quickly. As long as we make mass-operated mines a priority, take vigorous measures, and surmount all difficulties, such mines can be run profitably.

Of Xinjiang's projected steel requirement of 800,000 tons by the end of the century, the bulk will be the responsibility of August 1 Steelworks, leaving the local steelworks to come up with about 200,000 tons, a tough assignment. Whether or not they can discharge this responsibility depends on two critical elements, mineral

resources and funds. There are five steps they can take: 1) rely on self-accumulation; 2) rely on supportive government policies; 3) rely on mines operated by the masses; 4) absorb and utilize foreign capital; and 5) rely on scientific and technological progress.

Because of differences in geographical conditions and investment climate, local plants should have their own characteristics and development direction. As I see it, local steelworks in Xinjiang can fall into any one of the following structural categories:

1) Shikebutai iron mine at Ili Steelworks produces a pure and high-grade ore suited for direct reduction. This should enable the steelworks to pursue the type of technology involving direct reduction, electric furnace process, and pressure processing.

2) Situated at the eastern border of Xinjiang, Hami Steelworks is close to the interior of the nation and highly accessible. It is also rich in resources. With its four existing furnaces (including one scheduled for completion by year-end), it can become the autonomous region's ferroalloy base.

3) Bingtuan Steelworks has already adopted the electric furnace process and pressure processing mode of operations. After it is further transformed technologically, it can develop into an enterprise with an annual output of 50,000 to 100,000 tons of steel. With multiple processing, it can become a manufacturing base for a variety of metallic products.

4) On top of the Motuola iron mine at Hejing Steelworks is a manganese mine. Thus one possibility here is the blast furnace smelting of ferro-manganese. Also, we should gradually resume the construction of a special steel base with a production capacity of more than 50,000 tons.

5) Limited by the lack of mineral resources, Tianlong and Yuejin Steelworks can go in for the smelting and casting of pig iron and steel-making pig iron. Also it can diversify into the manufacturing of other products, depending on market needs.

6) Some local steelworks can take up multiple processing in conjunction with large plants. Qualified enterprises can also get together and create corporations for joint operation.

7) Consideration may be given to building a new sheet steel plant with an annual output of 50,000 to 100,000 tons in the Ili area, thus filling a void in the autonomous region's product lineup.

Gross Industrial Output for September
HK111152388 Beijing CEI Database in English
11 Nov 88

[Text] Beijing (CEI)—Following is a chart of China's total industrial output value in September 1988, released by CSICSC (China Statistics Information Consultancy Service Center)

	Sep 88	Jan-Sep 88	Comparison with Jan-Sep 87
(in 100 million yuan)			
Total	1079.9	8832.5	117.46
Including:			
Light industry	544.1	4430.0	118.90
Heavy industry	535.8	4402.5	116.05
State-owned	679.8	5696.8	112.57
Collectively-owned	363.0	2855.3	125.04
Others	37.1	280.4	159.86

(Industrial Output Value Is Measured in 1980's Constant Yuan)

Energy Industry Grows Steadily in 1988
HK111155488 Beijing CEI Database in English
11 Nov 88

[Text] Beijing (CEI)—China's energy industry has shown a steady growth since the beginning of the year.

According to statistics from the Ministry of Energy Resources, China produced more than 757 million tons of coal during the first ten months of the year—4.21 percent more than in the same period last year.

Of the total coal output, major state-owned mines produced 370 million tons, three percent more than in the same period last year.

The total oil output between January and October was 826.4 billion bbl, 2.07 percent more than in the same period last year. The output of natural gas was about the same as last year's.

The power industry is growing most rapidly in energy field compared with the same period last year, it increased by 10.49 percent. Of the total, 447 billion kwh of electricity, 92 billion kwh was generated by hydro-power stations, and 355 billion kwh, by thermal power plants.

However, according to observers, "the overheated development of the processing industry this year has led to a severe shortage of power, and thermal plants' demand for coal cannot be satisfied because of limited transport capacity."

Government Plans To Boost Plastics Industry
OW1411014388 Beijing XINHUA in English
0636 GMT 11 Nov 88

[Text] Beijing, November 11 (XINHUA)—China plans to boost its supply of raw materials for the growing plastics industry with a signed contract, CHINA DAILY reported today.

Technology, equipment, and capital are being imported from Canada, the Netherlands, and Japan to build the largest plant in the country to produce the material caprolactam. Last year, China imported 49,000 tons of the material at the cost of 870 million U.S. Dollars, the paper said.

The contract for the plant at the Yueyang General Chemical works in Hunan Province was signed yesterday between China Petrochemical Corporation (Sinopec) and companies of the three foreign countries.

The plant will use mixed loans provided by the Canadian and Dutch governments and companies, according to the paper.

The plant, with a designed production capacity of 50,000 tons a year and with an investment of about 800 million yuan (215 million U.S. Dollars), is expected to start operation at the end of 1992, said Sinopec officials.

Sinopec estimated that China will need at least 230,000 tons of caprolactam by 1995 with increasing demands from the chemical and clothing industries. In 1995, China's polyamide fibre output is planned to account for 10.4 percent of its chemical fibre production, the paper reported.

To further alleviate the shortage, the Chinese Government has decided to build another caprolactam plant with an annual production capacity of 50,000 tons.

This plant would be located in Nanjing, capital on Jiangsu Province. Negotiations with foreign companies are well under way. Sinopec is quite sure that the Yueyang Plant will provide a good economic return after it begins operation. Its annual pretaxed profits are expected to be 158 million yuan (42.4 million U.S. Dollars), the paper said.

Chongqing's Industrial Output Increases
OW1211145788 Beijing XINHUA in English
1450 GMT 10 Nov 88

[Text] Chongqing, November 10 (XINHUA)—Chongqing, a major city of southwest China's Sichuan Province, achieved a total industrial output value of 1.559 billion yuan in October, up 18.1 percent over the same period of last year, according to a report from the local statistics bureau.

The light industrial output value for the month reached 676.62 million yuan, up 14 percent over the same period of last year, while the heavy industrial output value amounted to 882.46 million yuan, up 21.2 percent over the same month of last year.

Officials from the statistics bureau noted that the industrial growth is not too high but it has already put pressure on the supply of energy and raw materials.

Haikou Boosts Power Industry
HK2710154188 Beijing CEI Database in English
27 Oct 88

[Text] Haikou (CEI)—The first phase of a projected 50,000-kilowatt generating unit has been installed and put into operation in the Macun power plant in Haikou, capital city of south China's Hainan Province, according to an official of the Hainan power supply company.

Hainan has been experiencing difficulties in adapting its available power resources to increasing demands as one of China's major trading centers with the outside world.

The local government has paid great attention to solving this problem and plans to install two additional transformer substations of 110,000 and 35,000 volts which will go into operation this winter and in the coming spring.

In addition, the construction of another 220,000-volt substation will be completed next June.

The second phase of the Macun power plant project—two 125,000 kw generating units—will go into operation next year, the official said.

And to further increase their resources, Hainan authorities also plan to build a large thermal power plant.

Jilin Industry, Communications Advance
SK2210033288 Changchun Jilin Provincial Service
in Mandarin 1030 GMT 21 Oct 88

[Summary] In the first nine months of this year, a gratifying situation emerged in our province's industrial and communications production. The province's total industrial output value in this period reached 22.8 billion yuan, an increase of 16 percent over the same period of last year. The province also struck a balance in the development of light and heavy industries. The sales income and profits and taxes realized by budgetary industrial enterprises increased by 17.9 percent and 37.6 percent respectively over the same period of last year. The production of energy and raw material industries continuously increased. Power generating volume increased by 2.5 percent over the same period of last year.

Shanghai Industrial Production Up in Oct
HK1411095988 Beijing CEI Database in English
14 Nov 88

[Text] Shanghai (CEI)—Industrial production in Shanghai registered a steady increase in October with the average daily output value reaching 331 million yuan, the highest of this year.

According to the statistics of the city's department concerned, Shanghai fulfilled 9.6 billion yuan of the total output value of industry in October, the same as in September and 1.4 billion yuan more than the same period of last year, a 16.4 percent increase.

Light industry in Shanghai fulfilled 5.3 billion yuan, a 16.1 percent increase, while heavy industry fulfilled 4.3 billion yuan, a 16.7 percent increase.

The industry of state ownership fulfilled 6.4 billion yuan, a 6.8 percent increase, while the industry of collective ownership fulfilled 2.2 billion yuan, a 30.1 percent increase. Other industries fulfilled about 965 million yuan, a 81.1 percent increase, among which the industry with foreign investment fulfilled about 196 million yuan, a 1.33 percent increase.

From January to October this year, Shanghai fulfilled a grand total of industrial output value of 88.5 billion yuan, a 7.4 billion yuan or 9.1 percent increase over the same period last year, among which light industry had a 9.6 percent increase and heavy industry a 8.6 percent increase.

Experts noted that the speed of industrial development in Shanghai this year is normal on the whole.

SMALL-SCALE ENTERPRISES

Article Urges Development of Private Enterprises
40060043 Nanchang JIANGXI RIBAO in Chinese
5 Sep 88 p 2

[Article by Provincial Party Committee Rural Work Department: Maintain Productive Force Standard; Encourage Development of Private Enterprises“]

[Text] Since the 3d Plenum of the 11th CPC Central Committee, during the process of restoring and developing the individual economy in Jiangxi Province, private ownership of the means of production has appeared, as have private enterprises characterized by a work force of more than eight and a predetermined scale of production. These private enterprises continue to develop today and have become a force which cannot be ignored.

The appearance of private enterprises is consistent with the present stage of development of productive forces in China. The rapid development of the individual economy in recent years inevitably required breaking through the limitations of family businesses in order to expand

the scale of production and transform them into private enterprises. Consequently, the commodity economy is the objective foundation for the emergence and development of private enterprises. The existence and development of private enterprises is quite significant. They unite dispersed and latent productive elements to form new productive forces; they bring scattered social funds together, which results in much more rapid turnover than is the case with state-run and collective enterprises; they provide a means of putting the talents of capable people in the cities and countryside to good use; they absorb surplus rural labor; they link information and technology in the urban and rural areas; and they provide experience instructive for promoting reform of state-run and collective enterprises. It is thus obvious that developing private enterprises is the quickest way to develop the social productive forces.

Some people believe that operations which employ hired labor represent a capitalist economy, and that to develop private enterprise is to develop capitalism. Consequently, they are overcautious. It should be made clear that under capitalism, private ownership of the means of production and relying on hired labor to carry on production operations are without question the essence of a capitalist economy. But under socialism, a fundamental change has occurred. First, under socialism the public economy is primary. Private enterprise is subordinate to the socialist economy and subject to the policies and laws of the socialist state, and the supervision, regulation, and control of the industrial and commercial administration. Second, since the scope and development of private enterprise is delimited, it serves merely to supplement the interests of the socialist commodity economy. Third, part of the new private enterprise system value is converted to net income for the state through taxes; it is transformed into socialist accumulation and consumption funds, and therefore is characterized as socialist accumulation. Fourth, the hired workers in the socialist period will never again be propertyless laborers. Rather, once their food and clothing concerns have been resolved through household production contracting which links remuneration to output, they seek to increase their incomes by becoming hired workers. They and enterprise owners alike are masters of the country and enjoy equal political standing.

These changes show the private enterprises of today are in no way the same as those of the 1950s during the period of socialist reconstruction in China. Current party policy encourages their existence as a means to serve socialism, and they play an important supplementary role. Consequently, we should encourage their development with bold assurance. In terms of policy:

1. We should permit private enterprises to determine for themselves their scale of operations and number of employees based on actual production and management requirements. We should allow and facilitate the resignation or dismissal of cadres and technical personnel of state organs and businesses, or permit them to take early

retirement if the host agency agrees. They should flow into private enterprises, establish their own, or take the lead in setting up private enterprises, or help others in such ventures. We should allow the scientific and technical personnel of state-run enterprises to work for private enterprises during their spare time, or provide compensatory services.

2. We should encourage private enterprises to operate on a transregional basis or in multiple lines of business. They should be allowed to directly utilize foreign investment, process imported materials, assemble imported components, manufacture goods based on imported samples, carry on compensation trade, or engage in cooperative production operations with foreign enterprises. At the same time, we should allow private enterprises to contract or lease state-run and collective enterprises whose operations are being mishandled, or purchase enterprises which are about to go bankrupt.

3. We should allow private enterprise owners to enjoy relatively high incomes from legitimate operations. After-tax profits, dividends from share capital, risk compensation, credit interest, and other lawful non-labor income which accrue to private enterprises in their legitimate operations should be recognized and protected; they cannot be illegally deprived of these on any grounds. We should not meddle at will with the employee wage structure which private enterprises decide on, or the method of paying bonuses and allowances. The salary of a private enterprise plant director (manager or board chairman) shall be set at not more than 10 times the average wage of workers at that enterprise. In order to encourage private enterprises to expand reprocessing, we should not levy the individual income adjustment tax on that portion of after-tax profits utilized for productive investment. However, we should levy the individual income adjustment tax if enterprise owners transfer or sell off fixed assets for consumption use.

4. We should permit private enterprises to open accounts and apply for loans at financial institutions such as banks and urban and rural credit unions. To adapt to the development scale and loan amounts required by private enterprises, we could exceed the limits imposed on the individual economy, and the same interest rates should apply as for the urban and rural collective enterprises. Newly established private enterprises and privately-run agricultural enterprises engaged in developmental production should continue to enjoy preferential treatment in terms of taxes levied by the State Council and the provinces. We should permit the prices of private enterprise products to float up and down within the bounds set by state price controls, and reflect the high cost of inputs. These products should bring what the market will bear, be suitable for large scale importing and exporting, be priced according to quality.

5. We should guide and encourage private enterprises to gradually concentrate in cities and towns. Within a given county, we should consider selecting as development

zones a few towns which are suitable for expanding commodity production and which possess the necessary infrastructure, in order to attract enterprise owners to invest in and build factories and stores. In this manner, development of private enterprises and establishment of new small cities and towns will be intimately linked.

In the process of encouraging development of private enterprises, we should strengthen supervision and control. First, we must urge and help these enterprises to set up accounts and books, and gradually improve the enterprise financial system. We must be good at influencing the direction of their productive operations and help them to refrain from behavior geared to the short term. Furthermore, along with expanding production, we should gradually improve production conditions and the welfare and wages of the workers, and harmonize employer-employee relations. For enterprises where conditions warrant, we also could experiment with establishing an old-age pension fund system. Private enterprise employees could organize trade unions according to trade union regulations. Enterprises qualified to set up party and group organizations should set up such organizations under the leadership of the local party or group and in accordance with party or group regulations. Second, we must ensure that operations are conducted in a legitimate manner and take stern measures against those engaged in illegal activities such as speculating and profiteering, driving up commodity prices, confusing reality and falsehood, or evading taxes. We must be sure private enterprises provide for labor protection, control environmental pollution, ensure a safe working environment for employees, and strictly forbid the use of child labor. Next, for those areas where private enterprises are relatively concentrated, we could organize and establish independent private enterprise associations as required. The functions of the associations would be to 1) report reasonable demands of the private enterprises which safeguard their legitimate rights and interests; 2) organize the exchange of information, technology and management experience, and help the private enterprises to develop many and varied lateral economic ties; and 3) institute self-management and self-supervision, and conduct self-education which includes training and education in such areas as observing discipline and obeying the law, patriotism, and following the path of socialism.

Problems, Prospects for Privately-Owned Businesses Viewed

*40060118 Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese
No 43, 24 Oct 88 pp-14-15*

[Article by Chou Chun-hsiang 0719 0193 4382:
"Mainland Privately-Owned Businesses on the Rise"]

[Text] Statistics from the Chinese State Industry and Commerce Administration show that as of the end of 1987 China had 225,000 privately owned businesses

employing as many as 3.6 million people, measured in terms of private ownership of business assets and employment of eight or more employees.

Survival of the Fittest; Getting Ahead by Taking Advantage of Opportunities

In June 1988, a private businessman in Fuzhou declared frankly in front of 17 national and local correspondents who were interviewing him that he had personal assets worth 2 million yuan, and that the value of his home alone was 300,000 yuan.

This was Liang Yifeng [2733 0001 1496], whom an American Associated Press correspondent termed socialist China's youngest millionaire at just 30 years of age in 1988.

Four years ago, Liang Yifeng used the only 200 yuan he had and one Chinese-made Seagull camera to open a black and white photo processing shop. By following the business principles of keeping promises, providing fine quality, and observing the law, he expanded his business steadily. Today he has two photo processing shops in downtown Fuzhou, and he has purchased advanced color printing machines from abroad, and accumulated capital rapidly.

A thousand li away from Fuzhou in Taoxian Township in the Dongling District of Shenyang City lives a 34 year old peasant named Liu Xigui [0491 1585 6311]. Five years ago he got a start in a one-man hauling business using one old truck, and he kept plowing his profits back into production. Very quickly, his business developed into the "Xigui Hauling Company," which does an impressive amount of business. With the 55 hauling machines including trucks, forklift trucks, and cranes it owns, the company is able to contract hauling jobs at large projects. He also operates a chemical plant, a flashlight plant, a transportation repair and spare parts plant, and a livestock farm. The total value of his assets is 5.2 million yuan and he has 880,000 yuan in working capital. He employs 240 people, becoming the largest private business in Shenyang City.

Actually, Liang Yifeng and Liu Xigui cannot be termed standouts in China's newly rising private ownership corps. Everywhere in China, from north to south and from east to west, pearl kings, ceramic kings, mosquito net kings, chicken raising kings, and shoe kings have appeared in countless numbers, the storybook style of each arousing admiration.

In the social environment brought about by the policies of opening to the outside world and reform, and in the process of developing township enterprises in the wake of household industries and contract leasing, some private businessmen possessed of courage and insight showed their talent. Possibly they saw an "opening," or found a production niche that state-owned enterprises did nothing about, or possibly they went into some

"neglected business" where they were able to avoid competitors such as state-owned enterprises, or possibly they simply picked up opportunities that others had thrown away, producing commodities that state and collectively-owned enterprises were not interested in producing. Relying on their ability to get hold of and process economic information, and their courage in undertaking investment risks, and with the courageous attitude of a producer of commodities, they began to operate all manner of privately-owned fledgling enterprises that filled gaps in the market, thereby winning their own survival and development. The countless privately-owned "small foreign goods" production plants that began to operate along the coast of southern Fujian Province, which enjoys advantages in having a large overseas Chinese population, plentiful overseas Chinese investment, and access to information from the outside world, have become a production army for Fujian exports produced with outside capital that is becoming stronger and stronger. Some of Guangdong Province's privately-owned enterprises directly contracted "three forms of import processing and compensation trade," and then went on to develop Sino-foreign joint ventures, and cooperative businesses. Wenzhou City's privately-owned enterprises now account for 41 percent of the industrial sector, 33 percent of the commercial sector, and 66 percent of the transportation industry. This economic pattern is an important reason for Wenzhou's rapid economic development in recent years.

Though privately owned businesses do not have the preferential access to raw and processed materials and to markets that state-owned and collective enterprises enjoy under the plan, their efficiency and returns are commendable. A Wenzhou City comparison of returns from 50 privately-owned enterprises and 271 independently accounting state-owned enterprises showed that, except for a 17.76 percent higher per capita profit and tax rate for state-owned enterprises than for privately-owned enterprises, labor productivity rates and input-output rates for privately-owned enterprises were 31.5 percent and 3.6 times again as great respectively as for state-owned enterprises.

The powerful vitality of privately-owned enterprises lies in their having broken free from the traditional administration and management methods that shackle state-owned and collectively owned enterprises. They have extraordinarily adaptable mechanisms, and sensitivity to both profits and all kinds of market information, and they are also able to adjust business practices quickly. Some special studies maintain that the path pioneered at the present stage by privately-owned enterprises, which combines to a high degree the Chinese enterprise system with the market mechanism, represents, to a certain extent, the orientation of reform of China's enterprises.

Talk About Hardships During Ups and Downs

However, observers of China's economy have noted that when pursuit of profits and expansion of capital become

an overly magnified goal of some privately owned enterprises, private enterprise may produce various negative results for social development.

Most outstanding is simply the reckless operation of plants that causes a serious waste of resources. Small mines that pursue a slapdash, plundering form of production cause serious damage to underground deposits; some small privately-owned textile mills, silk mills, and printing and dyeing plants having only rudimentary equipment and a low level of technology, not only waste raw materials but also hurt the supply of raw materials to state-owned industries. Private enterprise operations are controlled principally through market regulation and the profit motive. There has to be a certain eagerness for quick success and instant benefit in production, and a certain opportunistic character as well. "Make some profit first, then talk" is the classic short-term psychology behind private enterprise behavior.

In private enterprise, a substantial amount of illegal covert activity of various kinds occurs that shows up conspicuously in tax cheating and tax evasion. Such enterprises employ all sorts of tactics to pull the wool over the eyes of tax agencies, such as improperly kept accounts, false accounts, off-the-books accounts, or simply keeping no accounts at all in a resort to countless stratagems for hiding business receipts and profits, which causes very great difficulties for tax collection. A Beijing Municipal Tax Bureau survey of some private enterprise tax payment problems during 1987 shows 80 percent of 30 private enterprises kept no accounts, that 27.4 percent of them either evaded or cheated on their taxes, and that the amount of tax cheating and evasion reduced by 38.2 percent the amount of taxes due.

Many methods are used to evade or cheat on taxes, such as claiming to be a collectively-owned enterprise. This requires only the payment of a small "hang-on" fee to obtain the protective coloration of a collective-owned enterprise, entitling one to "legal" tax deductions and exemptions. In suburban Shanghai, approximately 30 percent of all private enterprises are in this category.

Yet another kind of covert behavior shows up in the production and sale of bogus goods and imitation brands that hurt consumers and cause a disorderly market. A very large percentage of manufacturing plants producing phony alcoholic beverages, phony cigarettes, fake medicines, and spurious, low quality electrical appliances are private enterprises.

Bribery is yet another "talismán." When preferential plan treatment cannot be obtained for funds, raw materials, and market share, "parting with 5,000 to make 10,000, and not believing that a way cannot be made" are very prevalent ways of thinking. Some people say openly, "I use my own money to buy other people's authority, then I use other people's authority to make money for me."

Private enterprise poses historical problems for China in the hiring of labor. Since most private enterprises seek high profits, extended work hours and increased labor intensity has become the primary way in which some owners of enterprises accumulate capital. As a result, labor protection and welfare payments for hired employees lacks required backstopping. A random sampling of 30 private enterprises in Shenyang found that an overwhelming majority of plant owners had not signed labor contracts with hired employees, and some had even concluded "life and death contracts" in place of safety guarantees. Some privately owned steel rolling industries, small coal mines, and small chemical plants had quite a few workplace accidents; the working atmosphere was abominable; and the workers' health was also impaired.

Despite the above shortcomings of China's privately-owned enterprises, the Chinese government continues an attitude of support for them, and guides private enterprise in the direction of healthy development, creating a fine economic and political environment for this healthy development.

First of all, the Chinese government has made its own economic policies stable and coherent. When the national economic environment and local policies are in flux, fluctuations in private enterprises are greatest, and some private enterprises comprised of unstable elements are unable to avoid toppling, and coming to the end of the line.

Second, the Chinese government has repeatedly strictly prohibited unreasonable "exactions" from them. Nevertheless, all private enterprises are regarded as the heartless rich, rolling in wealth. Subjected to such a psychology, private enterprise faces very great perplexities. During the past three years, the Xigui Hauling Company in Shenyang has paid out more than 200,000 yuan in verifiable levies for help and support. At the medium size chicken farm operated by peasant Zhou Suiji [0719 6659 6068] in Linru County, Piangdingshan, in Hunan Province, people asked to borrow money, and wanted free chickens and eggs. Visitors also came in a steady stream, entertainment costs during 1987 reaching 70,000 yuan. In a suburban county of Kunming, the local electric power unit insisted on trading electric power for shares in a private enterprise calcium carbide plant, and wanted one-half of net profits as well or else it would refuse to supply electricity. It is things like this that the Chinese government is determined to halt in the future.

Trend Toward Inducements

With steady increase in the wherewithal for production, not only have private enterprises expanded the scale of their existing kinds of production, but it has become increasingly frequent for enterprises having different forms of ownership to pool the various production elements such as capital, equipment, skills, and markets.

Development of various kinds of partnerships has become a general requirement in order for private enterprises to obtain a certain level of funds and scale of operation.

After Zhuang Rongchang [5445 2837 2490], a peasant in Chinghe County, Hebei Province leased a township-operated fine hair plant for 20,000 yuan per year, he went into partnership with the Xinjiang Animal Products Import-Export Company, the China Native and Animal Products Import Corporation, and the Ministry of Aeronautics for the purpose of importing capital and technology to build new plant buildings, and add equipment to form the "Sanli Amalgamated Fine Hair Plant." This plant exports fine combed goat hair to 10 countries, including the United Kingdom, the United States, Japan, and Italy. This privately-owned plant is now of rather impressive size with fixed assets valued at total of 1.1 million yuan, and 2.5 million yuan of its own working capital. In 1987, its output value reached 5.6 million yuan, and it paid profits and taxes of more than 700,000 yuan. In a period of several years, it created a total of \$5.8 million in foreign exchange for the country.

Along with the formation of groups of private enterprises and coordinated partnerships, the use of stock shares is on the rise, becoming an important economic method that enterprises use to develop.

Wenzhou, which has a very lively privately-owned economy, has been engulfed by a "stock craze" in recent years. A survey shows more than 50,000 share capital enterprises in operation in Wenzhou during 1987 and 1988, 34,000 of which were privately-owned enterprises in the industrial, agricultural, commercial, transportation, and finance fields. Among rural township enterprises, stock share enterprises account for more than 50 percent of economic indicators such as output value and tax receipts. In Ou Hai County, where the stock share economy has developed most rapidly, 74 percent of enterprises having an output value of more than one million yuan are stock share enterprises. Foreign export products from stock share enterprises account for 80 percent of all foreign exports.

Another hot spot for privately-owned stock share enterprises is Jinjiang County in Fujian Province, where an overwhelming majority of the more than 6,000 township enterprises are mostly private enterprises financed through stock shares. In 1986, the output value of Jinjiang County's private enterprises was 7.7 times again as great as the output value of state-owned industries, and more than two times again as much as that of collective enterprises. The trend in development of privately-owned stock share enterprises during 1987 and 1988 was even more vigorous.

More Private Enterprises Developing

*OW2810230088 Beijing XINHUA in English
0909 GMT 28 Oct 88*

[Text] Beijing, October 28 (XINHUA)—As part of the government's endeavor to invigorate China's economy,

private enterprises are allowed to operate, and now, even though they are not fully fledged, they are playing a major role in economic development.

Private enterprises are developing amid theoretical disputes about whether they are "socialist" or "capitalist," a news analysis in today's ECONOMIC INFORMATION said.

One view holds that they are "capitalist" on account of the fact that they practise wage labor under the condition of private ownership. Contrary to this, many argue that they are different from enterprises in capitalist countries as they can be controlled by the state and are conducive to developing productive forces.

"In this sense, exploitation is also a reasonable and progressive economic mechanism," the paper quoted theorists as saying.

Statistics released by the State Administration for Industry and Commerce show that by the end of 1987 China had 225,000 private enterprises with over eight employees each, and total employment of 3.6 million.

They engage in production of commodities neglected or disdained by the state- and collective-owned enterprises, and have accumulated large sums of capital in a short time.

In less than five years, for example, 30-year-old Liang Yifeng announced that he owned private assets worth two million yuan.

Liang opened a photo developing and printing stall in 1984 with 200 yuan and a home-made camera. Now he has two shops in downtown Fuzhou, capital of Fujian Province, and has imported color photo enlargers to expand his business.

Another outstanding figure is Liu Xigui, 34, a former farmer from near Shenyang City. He shifted to transportation and now has fixed assets worth 5.2 million yuan, including 55 motor vehicles, forklift trucks and cranes, floating capital of 800,000 yuan and 240 employees.

Compared with state-owned enterprises, private ones have a much higher efficiency rate. According to a sample survey conducted in Wanzhou City, among 50 private and 271 state- and collective-owned enterprises, the former surpassed the latter by 17.76 percent in per capita tax turned over to the state, by 31.8 percent in productivity and by 360 percent in input-output ratio.

In addition, share-holding is becoming a major approach to developing private enterprises. Of 50,000 enterprises recently formed through share-holding in Wenzhou, 34,000 are private ones which are involved in industry, agriculture, commerce, finance and service trades.

Over 50 percent of Wenzhou's rural industrial output value and tax income comes from private share-holding enterprises. In Jinjiang County, Fujian Province, the industrial output value created by private enterprises is 8.7 times that by state-owned enterprises.

From a long-term point of view, the paper predicted, private enterprises and enterprises under public ownership, guided by market forces, will move closer and "infiltrate" each other.

FOREIGN TRADE, INVESTMENT

Impact of EC's Further Integration on Country's Foreign Trade

40060079b Beijing GUOJI SHANGBAO in Chinese
18 Oct 88 p 3

[Article by Zhang Pingfeng 1728 1627 6265: "The Impact of Western Europe's Integration on China"]

[Text] If an integrated EC market can really achieve its goal of free "circulation" of goods, capital, services, and personnel, it will help China in the area of foreign economic relations and trade by making it possible to promote trade with the EC as a whole. However, the EC itself is a protectionist and exclusive economic and trade bloc. The formation of an integrated market, therefore, is bound to have an unfavorable influence on China's exports to the EC.

I. Favorable Factors

First, as the world's largest trade bloc, an economically and commercially stable and prosperous EC will contribute to today's worldwide economic reform and readjustment. At the same time, it will help reduce the predominance of Japan and the United States in China's foreign trade structure.

Second, with the realization of free "circulation" in the integrated market, one can make direct and indirect investments in any member country and receive non-discriminatory national treatment. Moreover, after obtaining a license in one member country, it can be used in any other member countries, and the products it covers can be circulated in the entire unified market. These circumstances will be beneficial to China's overall opening up to the EC market.

Third, a unified market will eliminate all trade barriers. The unification of commodity specifications and standards will be helpful to China because China can then produce export goods according to the unified EC specifications and standards; the removal of currency barriers will facilitate commodity circulation and reduce losses caused by currency fluctuations; and the unification of member countries' financial and tax policies and commercial and trade laws and regulations will simplify complicated legal procedures and greatly increase efficiency.

II. Unfavorable Factors

First, with the acceleration of the integration process, trade within the EC, which will enhance the member countries' mutual relations and interdependence, will be strengthened and developed. This will mean a relative weakening of trade with countries outside the EC. It is foreseeable that China's share of the EC's market will be affected.

Second, in the unified market engaging in free "circulation," value-added taxes will be unified. When this happens, investments within the EC will inevitably shift to Spain and Portugal, where production costs are relatively lower. These two countries' labor-intensive exports goods will have a definite advantage over similar Chinese goods competing for the EC market.

Third, the EC has signed a series of trade agreements with many developing countries, and it has extremely close ties with the signatory countries to the Lome Convention. The EC obtains 90 percent of its imported petroleum and 75 percent of its industrial raw materials from these developing countries while 100 percent of the finished industrial goods and 96 percent of the agricultural products exported by these developing countries to the EC are duty-free. Following the establishment of the integrated EC market, the EC, to insure its sources of energy and raw materials and its markets for industrial products, will certainly try its best to protect the export interests of the developing countries with which it has close ties. Although China has signed a trade agreement with the EC, the terms are much less favorable than those offered by the EC to the above-mentioned developing countries. Moreover, even though the EC offers a GSP (generalized system of preferences) to China's export goods, the GSP actually enjoyed by China is rather limited because the EC does not officially recognize China as a developing country. Therefore, it is possible that China's export goods could face resistance and even exclusion.

Fourth, after the establishment of the unified market, the present trade restriction measures of each EC member country will be replaced by unified restriction measures for the EC as a whole to form an overall protective nontariff barrier. For example, EC global quotas will replace national and regional quotas. As EC's member countries differ greatly in their levels of industrial development, the relatively backward member countries will constantly demand protection for their domestic markets. And, the EC, to protect the markets within the community and coordinate the interests of its member countries, will have to readjust its overall policies and measures. All this will lead to more frequent and acute trade frictions.

It should be pointed out that the EC has always regarded textiles as a "sensitive" commodity, on which strict quota limits have been imposed for many years.

Recently the EC has indicated in no uncertain terms that restrictions on textiles and motor vehicles will not be relaxed after the establishment of the unified market.

In short, a unified EC market will have both advantages and disadvantages for China. It will be a challenge as well as an opportunity. As W. de Clereq, a member of the EC commission responsible for external relations and trade policy, said, "The EC is neither a fortress nor a colander."

III. Suggestions

First, in order to expand its share of the EC market for its popular products in the future, China should start now to select and cultivate reputable and financially strong agents and sole agents with extensive sales channels within the EC to establish a marketing network there.

Second, it is necessary to improve the quality of the popular items now in production, add new varieties, insure supplies, and shorten delivery time. In light of EC market demands, we must move quickly to develop high- and medium-grade products and continue to improve product quality.

Third, we should change our export product mix and expand exports of machinery, electrical appliances, and instruments and meters.

Fourth, we should strengthen research on EC's trade policies, especially its internal trade policies, watch closely and study its unified commodity specifications and standards, and, once a product is introduced, strive to expand sales quickly to the entire EC market. It is also necessary to study the EC's investment law, company law, business competition law, consolidation law, and other laws and let qualified large enterprises make investments directly in the EC or in developing countries with close ties to the EC to get into the EC market indirectly.

Heilongjiang Governor on Developing Border Trade With Soviet Union

SK2910051588 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 28 Oct 88

[Text] During his recent inspection tours to Daxinganling and Heihe Prefectures, Governor Hou Jie put forward important opinions on how to implement the guidelines of the 3d plenary session of the 13th party Central Committee and develop the border economy.

Governor Hou Jie inspected the work of seven cities and counties in these two prefectures and extensively held talks with prefectural and country leaders and cadres and masses of enterprises and the rural areas on the issues concerning implementing the guidelines of the third plenary session and the second plenary session of the sixth provincial party committee and developing the border economy.

After hearing the report on relaying and implementing the guidelines of the third plenary session made by responsible persons of Heihe Prefecture, Hou Jie said: In the course of improving the economic environment and rectifying the economic order, the border areas should proceed from their actual situation and positively and accurately implement the guidelines of the third plenary session. To this point, we should do a good job in handling the relationship between the improvement and rectification of the economy and the development of production. The aim in improving the economic environment and rectifying the economic order is to develop production; and the tasks for improving and rectifying the economy are to solve the confused phenomena that affect and restrict the development of production and to establish a new normal order for the economy. On no account does improving and rectifying the economy mean imposing restrictions on the development of production.

He said: Although the border areas have made some progress in economic construction over the past few years, the pace of development is comparatively slow and the border areas are still poor and lag behind. Therefore, we should proceed from reality to improve the economic environment and rectify the economic order in line with the principle of not demanding unity in everything. We should place stress on solving the problems related to an overheating economy and excessively high speed. Although the border areas have overheating economic situations in some spheres, their general development speed is not excessively fast but comparatively slow. For example, the industrial output value of a country only ranged from 20 million to 30 million yuan, lower than that of a village in other areas. How can we say the development speed is excessively high or the economy is overheated? Thus, the border areas must not give up anything as soon as we advocate the work of controlling the overheating economy and slowing down the development speed. We should control all that should be controlled and guarantee all that should be guaranteed. All things that are conducive to readjusting the industrial structure, increasing revenues, and gaining reserve strength should positively be advocated. It is necessary to accelerate the pace of economic development.

On the subject of developing the border trade with the Soviet Union, Governor Hou Jie said: The border areas in our province have many advantages. I think that their geographical positions are their best advantage. The border areas have advantages for developing the border trade. Thus, the border trade with the Soviet Union should receive prominence. The border areas should strive to promote the development of the economy through developing the border trade. Developing industrial trade to rejuvenate border areas should become the strategy for economic development. Developing trade with the Soviet Union is a big job. If we do a good job in this, not only can the economic development in the border areas be promoted but also the economic construction of the whole province can be pushed forward.

Governor Hou Jie said: Now, the border areas have just begun their economic construction and a good development trend has emerged. From now on, only when they persist in the orientation of reform and opening up to the outside world, conscientiously enforce the economic development strategies suitable to themselves, and actually bring their advantages into play will they be able to become the economically most advanced areas and the richest areas in our province. The vast number of cadres and the people along the border should have such lofty aspirations and great ideas.

Prospects for Trade Between Shanghai, Taiwan

40060085 *Shanghai SHEHUI KEXUE [SOCIAL SCIENCES]* in Chinese No 9, 15 Sep 88 pp 43-48

[Article by Zhang Zhongli 1728 0112 4409, Pan Junxiang 3382 0689 4382 and Zhou Jianming 6650 1696 2494: "Prospects for Trade Between Shanghai and Taiwan"]

[Text] In recent years, dealings between Taiwan and the mainland have taken a turn for the better. \$1.5 billion in trade was conducted between Taiwan and the mainland in 1987. Approximately \$1.2 billion of this were Taiwan exports to the mainland, and approximately \$300 million of this were mainland exports to Taiwan. Although this trade is still conducted through intermediaries, it will inevitably show development in both quantity and form. Entrepot trade to the mainland via Hong Kong in the first quarter of 1988 increased 65.6 percent over that for the same period last year and entrepot trade to Taiwan via Hong Kong increased 62.6 percent. It is estimated that entrepot trade between Taiwan and the mainland could reach \$2 billion in 1988. Taiwan primarily exports home electrical appliances, machinery, foodstuffs, chemical products, and textiles. The mainland primarily exports fresh fish, raw materials for agriculture and industry, and medicinal products. This increasingly intimate and frequent economic exchange has deep economic origins which go beyond such factors as geography, history and identity of nationality.

Looking at Taiwan, as the U.S. was striking it off the list of those entitled to G.S.P. treatment, the massive trade imbalance between Taiwan and the U.S. was already forcing Taiwan to consider changes in the market structure of its exports. Undoubtedly there is room for development in the markets of Europe (including both Eastern and Western Europe) and Japan as well as in other countries in Latin America, Africa and Asia. However, the enormous market of the mainland is one that should not be ignored for any reason. This huge market of one billion people has enormous potential. In addition, as for Taiwan, it itself lacks natural resources and the mainland can supply lots of natural resources. Expansion of trade dealings would undoubtedly be beneficial to both sides. Another problem Taiwan has run into is that its industrial structure is in urgent need of adjustment and there is a surplus of idle funds. Because the New Taiwan dollar has risen against the U.S. dollar

and industrial wages have increased, labor intensive products are no longer Taiwan's strong point and these products must be spread to countries and regions with a cheap labor force. As for capital, new investment opportunities must be found. Regardless of how we look at it, the mainland is appealing.

The coastal region development strategy implemented on the mainland includes attracting foreign funds for investment and welcoming materials to be processed, parts to be assembled and compensation trade. At the same time, the coastal regions are working hard to expand foreign trade. In the course of implementing the coastal strategy, Shanghai acts as an old industrial base, and similarly, faces problems in making the shift toward export orientation. Shanghai lacks funds, foreign sales channels and sufficient talented persons to carry out foreign trade. However, it has strong aspirations of attracting foreign investment. Shanghai has already established the Minxing Economic Development zone with an excellent infrastructure where foreign investment can find preferential policies. At present, Pudong is also being developed. Preparation is being done there to attract foreign investment on an even larger scale. The People's Government of Shanghai Municipality has already set a goal of attracting \$20 billion in foreign investment. We are convinced that Shanghai is definitely an ideal location for Taiwan businessmen to invest. It differs from other areas in that it has a large industrial labor force of fairly good quality. Shanghai rates near the top among coastal areas whether one looks at quality of management or skill of workers. Shanghai also has an excellent contingent of scientific researchers. Presently, scientific research workers are combined with production departments where they jointly strike out toward the international market. We are confident that this excellence will attract Taiwan businessmen to Shanghai for joint cooperation.

Last year, Shanghai saw a fairly large increase in its foreign trade. Aside from this benefit the international market conferred on Shanghai's export expansion, Shanghai authorities have also emphasized work on the following:

- (1) They have used international resources and begun pursuing the strategic policy of "putting both ends abroad, and large scale importing and exporting" whereby the supply of raw materials and the sales of processed finished products are conducted on the international market. In recent years, the proportion of Shanghai exports that can be traced to goods imported to "cultivate exports through imports" has grown to over 50 percent. Imports of goods and materials in this area include steel products, wood products, non-ferrous metals, chemical fibre, sheep's wool, raw materials for plastics, industrial chemicals and pulp.
- (2) They have given full play to the invigorating role of township enterprises in expanding exports. In recent years, Shanghai's various foreign trade companies have

set up 150-odd joint ventures with unified management out in the suburbs and counties. Already over 60 percent of such export products as wood screws, bakelite electrical equipment, towels, bed sheets, woolen sweaters, embroidered clothing, and fashion clothing exported by Shanghai are produced out in the suburbs and counties. Over 85 percent of Shanghai's silk exports go in the form of silk fashion dress.

(3) They have developed horizontal integration and given full play to the function of the port. They have returned award funds and retained foreign exchange in accordance with State regulations to those areas that have provided the goods. In 1980, 60 percent of exports that left through the port of Shanghai came from Shanghai and 40 percent came from other provinces. Later, there was a large scale reduction in exports leaving through the port which came from other provinces until, in 1984, the above-mentioned ratio was 77:23. Beginning in 1985 exports from other provinces made a comeback and in 1987 the ratio was 70:30. Viewed from an absolute value, they have already bounced back to the 1980 high.

Currently, the State Council has decided to quicken and intensify reforms of the foreign trade system. Furthermore, it has clarified Shanghai's strategic plan in developing the export-oriented economy. Shanghai is liberalizing the business of processing and assembling materials, encouraging those enterprises and enterprise groups that possess the right conditions to manage their own exports, and gradually vesting export management rights directly in the production enterprises. Also, it is continuing to push for integration among foreign trade departments and township enterprises in the suburbs, counties, other provinces and cities and is developing export-oriented medium and small enterprises under the principle that everyone benefits. Approximately 100 are planned to be developed in 1988.

Thus, reviewed from the long-run hereafter, Shanghai and Taiwan will follow a path of export-orientation in developing their economies. Although there are many differences in the systems of the two and in certain territories they may even be competitors, this does not preclude the two from being partners that can carry out intimate cooperation. Opening up international markets, expanding export scales and promoting industrial upgrading are all projects for joint effort. The trade expansion and economic development of these two areas carries with it tremendous significance to the Chinese people.

(The author's unit: The Shanghai Academy of Social Sciences)

Fujian Special Zones To Lure Taiwan Investment
HK2910014588 Hong Kong HONGKONG STANDARD
in English 29 Oct 88 p 6

[By Fan Cheuk-wan in Fujian]

[Text] Fujian Province, on China's east coast, is preparing to set up more than 10 "Special Investment Zones for Taiwanese Compatriots" to encourage direct investment from the Island republic.

The plan is the latest attempt by the Chinese government to attract direct investment by Taiwan businessmen.

China's efforts fly in the face of the ruling Kuomintang (KMT) government's strict ban on direct trade across the strait.

In an interview with THE STANDARD in Fuzhou yesterday, the deputy head of Fujian Province's Foreign Economic Relations and Trade Commission (Foreign Investment Management Division), Mr Liu Hui, said authorities began drafting the plan after the State Council passed Document No 22 in July.

"The State Council passed Document No 22 to urge all provinces to encourage Taiwanese investment in China," Mr Liu said.

"I think the special investment zones will be concentrated in the Minnan region, the southern part of Fujian. Other suitable sites include Zhangzhou, Quanzhou, Fuzhou, Xiamen and Ningde."

Mr Liu said providing one region with numerous special investment points for the Taiwanese would encourage them to invest in China.

"The special investment zones will be very attractive to Taiwanese traders because many Taiwanese people are natives of Minnan," Mr Liu said.

"Taiwanese will invest there even though there is no special investment treatment given to them."

Taiwanese do not currently enjoy preferential taxation treatment in China. They are taxed just the same as overseas Chinese.

"Taiwanese businessmen in Fujian have (indicated) they don't want special taxation treatment—they just want good investment—they just want good investment opportunities," Mr Liu said.

Mr Zhang Shoushan, vice-director of Fujian Province's Foreign Economic Relations and Trade Commission, yesterday told THE STANDARD that Taiwanese traders had already invested U.S.\$80 million (about HK\$624 million) in more than 100 projects.

"China-Taiwan direct trade is developing rapidly under (the Chinese government's call for) the 'three communications'—trade, mail, and transport," Mr Zhang said.

The 13th KMT congress in July adopted a more liberal mainland policy, but still kept the strict ban on direct investment in China.

Both Taiwanese businessmen and the Ministry of Foreign Economic Relations and Trade in China have called for further relaxation on controls on direct trade across the strait.

The total value of China-Taiwan indirect trade rocketed to U.S.\$1.56 billion (about HK\$12.2 billion) last year—a 20-fold increase on the total value in 1979.

Mr Zhang said about half the existing Taiwanese investments were made this year after the 38-year-old ban on family visits to the mainland was lifted by late President Chiang Ching-kuo last November.

"Most of the Taiwanese compatriots invest in electronics, shoe-making, chemicals, and the aquatic industry," Mr Zhang said.

Mr Liu said the blueprint for the Special Investment Zones for Taiwanese Compatriots would be worked out by the end of this year.

ASEAN, Gulf Region Trade Volume Increases
OW1211130688 Beijing XINHUA in English
0807 GMT 12 Nov 88

[Text] Beijing, November 12 (XINHUA)—China has enhanced its efforts to promote its trade with members of the Association of Southeast Asian Nations (ASEAN) and Gulf countries since this year, according to the State Statistics Bureau.

Data released by the bureau here today show that the trade volume between China and ASEAN and Gulf countries in the first three quarters of this year rose by 36.5 percent and 33.7 percent, respectively.

This, specialists at the bureau said, makes a change from previously, when China relied excessively on Japan and European countries in its foreign trade.

In the first nine months of this year, the trade volume between China and Japan and European countries went up 13 percent and 9.3 percent, respectively, but the proportion of goods exported to these two areas of the total went down to 30.6 percent from 34.2 percent in the same period last year.

China's trade with the United States and the Soviet Union has kept on rising, with increases of 34.1 percent and 24.8 percent, respectively, in the same period.

The data also show that the business of processing customer-supplied materials, compensation trade and border trade have all become more active. During the January-September period, these sectors achieved a total of 20.5 billion U.S. dollars in output value, up 48.2 percent from a year ago.

The specialists attributed this progress to the reform in China's foreign trade system, which was started earlier this year.

However, they pointed out, the overheated domestic economy this year also put difficulties in the way of the country's foreign trade by straining resources.

Inner Mongolia Imports German Technology
HK0311104788 Beijing CEI Database in English
3 Nov 88

[Text] Hohhot (CEI)—The Hailar General Husbandry Machinery Plant in the Inner Mongolia Autonomous Region has begun to produce a new type of reciprocating hay mower using Federal German techniques.

Chinese and German experts assessing the 93gh-2.1 model have given high marks to the newly designed machine, which is suitable for both natural and artificial grasslands.

Meanwhile, the Chifeng Husbandry Machinery Plant of Inner Mongolia has recently put out a new dish silage harvester.

The 9QSY-8 model developed on the basis of a Federal German prototype has passed technical appraisal.

Sino-Australian Joint Venture Progresses
HK1011114688 Beijing CEI Database in English
10 Nov 88

[Text] Beijing (CEI)—The first phase of the Channar Mine, a Sino-Australian joint venture and one of China's biggest investment projects overseas, will be completed by the end of next year, a Chinese official said on November 8.

Chen Qinghuai, vice-president of the China Metallurgical Import and Export Corporation (CMIEC), said that the first phase of the mine with a total joint investment of 280 million Australian dollars (about 180 million U.S. dollars in 1987) is expected to produce 3 million tons of iron ore in 1990, all of which will be shipped and sold to China.

Chen said that the mine, built in Pilbara in Western Australia, was initiated by then-Chinese premier Zhao Ziyang (now the party general secretary) and Australia in 1983.

The construction of the mine started at the beginning of this year after China and Australia reached an agreement on the project in November 1987 after years of consultation, negotiations and research to probe the feasibility of the project, Chen said.

Central Bank Chief on Foreign Debt Payment
OW0411042688 Beijing XINHUA in English
1444 GMT 3 Nov 88

[Text] Beijing, November 3 (XINHUA)—A top banking official said here today that China is prudent in dealing with foreign debts and will never let itself get into a debt crisis.

Wang Deyan, president of the Bank of China (BOC), disclosed that China has foreign debts totalling 30 billion U.S. dollars. "This is far short of the 'alarm point' and we have the ability to pay these debts."

He gave three reasons for this position: less than 10 percent of the foreign debts were due to be paid off at the end of 1987, a proper ratio between the total amount of foreign debts and the country's exports, and the country's ability for macro-adjustment of foreign debts.

It is learnt that this year China has registered a good export record, averaging 100 million U.S. dollars-worth a day; thus, China's exports will reach 36.5 billion U.S. dollars this year.

Wang expressed confidence in the country's ability to pay off its foreign debts. He said that although China will enter into the peak period for repaying foreign debts after several more years, the country has now begun preparations for the repayment.

He said the development of an export-oriented economy in China's coastal areas has been restricted by the supply of domestic and foreign funds. With the improvement of the economic environment and straightening out of the economic order, the export-oriented economy in these areas will be developed in a healthy way.

He said China attaches importance to the currency structure and repayment deadlines of its foreign debts.

He noted that the revaluation of the Japanese yen has placed an extra burden on some Chinese enterprises because they have borrowed large amounts in the Japanese currency.

The Chinese Government has also studied the debt problems in developing countries and adopted measures to reign in its foreign debts with a scientific approach.

The economic development in the coastal areas requires more investment, he said. But he cautioned that excessive and inappropriate investment will provoke overheated development, thus causing inflation.

He said that from a long-term point of view, and in consideration of keeping the economic development in the coastal areas constant, credits in Chinese currency to these areas should be made in a rational way in the next few years. In doing so, these areas will carefully choose their construction projects and make good use of the credits, thus making them attractive to foreign investment.

September Commodity Export Volume
HK2410151188 Beijing CEI Database in English
24 Oct 88

[Text] Beijing (CEI)—Following is the statistical table showing China's major export commodities by volume in September 1988, according to primary statistics released by the general administration of customs.

Commodity	Unit	September	Jan.-Sep.
Live Pigs	Head	266,623	2,246,264
Live Poultry	in 10,000	301	3,169
Fresh or Frozen Beef and Mutton	Ton	7,812	44,191
Fresh or Frozen Pork	Ton	8,060	47,086
Frozen Chickens	Ton	4,776	17,971
Frozen Rabbits	Ton	1,199	10,913
Fresh Eggs	in 1,000	50,099	693,823
Aquatic Products	Ton	16,120	168,516
Live Fish	Ton	3,536	30,610
Fresh or Frozen Prawns	Ton	2,191	38,547
Others	Ton	10,393	99,358
Cereals	Ton	753,282	5,284,941
Rice	Ton	54,881	539,961
Soybeans	Ton	135,597	1,200,902
Dried Pulses	Ton	33,886	449,658
Maize	Ton	465,026	2,894,400
Others	Ton	63,892	200,020
Vegetables	Ton	61,497	511,085
Fruits	Ton	26,374	130,000
Tangerines and Oranges	Ton	2,686	35,694
Apples	Ton	3,878	23,708
Others	Ton	19,810	70,598
Chestnuts	Ton	190	2,621
Walnuts in shell	Ton	80	1,676
Walnut meat	Ton	113	9,569
Sugar	Ton	51,968	232,726
Natural Honey	Ton	2,889	30,188
Tea	Ton	15,919	128,240
Canned Food	Ton	47,247	401,107
Canned Pork	Ton	9,376	60,163
Canned Vegetables	Ton	27,234	242,112
Canned Fruits	Ton	5,122	61,253
Others	Ton	5,515	37,579
Flue-Cured Tobacco	Ton	2,866	13,738
Goatskin	Piece	1,437,646	7,955,286
Furshins, Raw	Piece	388,460	3,425,039

Peanuts, Shelled or not	Ton	10,626	236,131
Filature Silk	Ton	837	6,575
Cotton	Ton	31,560	378,548
Cashmere	Ton	167	2,152
Rabbit Hair	Ton	1,077	4,506
Salt	Ton	23,458	247,356
Tungsten Ore	Ton	1,780	14,905
Bristle	Ton	665	7,222
Salted Hog Casing	Ton	882	11,425
Crude Drugs	Ton	10,325	64,916
Coal	Ton	1,629,154	10,626,359
Coke, Semi-Coke	Ton	113,462	479,683
Crude Petroleum Oil	Ton	2,172,085	19,789,381
Refined Petro-Products	Ton	413,366	3,260,524
Edible Vegetable Oil	Ton	3,022	19,105
Tung Oil	Ton	1,845	20,416
Lithopone	Ton	4,395	73,416
Pharmaceuticals and Medicines	10,000 USD	2,150	19,570
Medicaments of Chinese Type	10,000 USD	816	6,998
Fireworks and Fire-cracker	10,000 USD	811	7,075
Rosin	Ton	16,419	152,793
Furshin Plate	Piece	218,734	1,620,594
Rubber Tyre	Ton	98,063	843,529
Paper and Paperboard	Ton	21,428	186,819
Cotton Yarn	Ton	17,156	140,097
Spun Rayon Yarn	Ton	1,768	12,284
Cotton Woven Fabrics	10,000 M.	19,116	146,469
Polyester/Cotton Woven	10,000 M.	8,715	70,005
Pure Silks and Satins Fabrics	10,000 M.	2,111	15,055
Carpets	Square Meters	554,504	4,633,738
Cement	Ton	11,717	98,847
Household Pottery	10,000 USD	2,211	16,580
Pearls	10,000 USD	161	949
Rolled Steel	Ton	75,757	534,049
Iron and Steel Wire	Ton	11,647	105,771
Copper Products	Ton	1,279	39,102
Aluminium Products	Ton	2,525	24,321
Zinc and Zinc Alloy	Ton	564	10,174
Tin and Tin Alloy	Ton	836	7,423
Tungsten	Ton	27	181
Antimony	Ton	3,457	19,632
Sewing Machines	Set	72,511	579,743
Textile Machines	10,000 USD	386	3,512
Machine Tools	Set	45,007	282,685
Bearings	10,000 USD	834	5,892
Wrist watches	Piece	3,041,704	20,201,245
TV Sets	Set	599,245	1,876,656

Color TV Sets	Set	124,438	931,439
Black and White TV Sets	Set	474,807	945,217
Recorders	Set	1,151,752	7,755,842
Electric fans	Set	332,369	6,149,868
Bicycles	Set	158,292	952,784
Garments	Suit/Pieces	14,746	126,449
Leather Shoes	In 10,000 Pairs	2,746,527	22,375,221
Toys	10,000 USD	4,033	26,679
Rubber and Plastic Soled Cloth Shoes	10,000 Pairs	1,475	14,333
Exported Goods	10,000 Yuan	61,128	439,107
Processed and Assembled With Imported Material (Excluding Those Processed on Contracts)			

Comparative Advantage, Export Strategy for Manufactured Goods

40060075 Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 9, 30 Sep 88 pp 16-17

[Article by Tang Xiaojie 0781 1420 2638: "Discussion of the Comparative Advantage and Export Strategy of China's Manufactured Goods"]

[Text] Increasing foreign exchange earnings through exports is the basis for the expansion of opening up to the outside world and the development of the externally-oriented economy and trade. However, expanding exports, especially manufactured goods export, depends on how China's comparative advantage is used, as well as on the formulation of an appropriate strategy. Where, then, does the comparative advantage for China's manufactured goods lie, and what is the strategy?

China is a large developing nation, and due to historical and geographical factors, there is a very large disparity with respect to level of development among its various regions. At a time when China has already entered the front ranks of the world, or even occupies the leading position in some areas such as the aviation industry, the nuclear industry, and superconductivity research, a few regions are still following primitive slash-and-burn production methods. This economic situation has determined the uniqueness of China's trade. Therefore, even though China is a low-income nation from an overall perspective, it can be regarded as simultaneously possessing characteristics of developed and developing nations, having two types of comparative advantage, and confronting two different levels of export markets. China should export manufactured goods with different characteristics to these two markets.

Traditional trade theory, represented by the Euler's factors of production theory, holds that a nation's export structure is determined by its natural endowment of production factors, and that a nation should therefore export large volumes of those commodities which make intensive use, in their production, of factors which are relatively abundant. Thus, relative to developed nations, China's abundant factor is its labor force, while relative

to developing nations, its abundant factor is technology. Therefore it should export labor-intensive commodities to the former and technology-intensive commodities to the latter.

The new postwar international trade theory—represented by the product cycle theory—adapting to changes in the international market of the present period, holds that when a country is formulating a foreign trade strategy, it should not only start from the standpoint of supply by considering natural endowment of resources, but it should also start from the standpoint of demand by giving attention to the differing levels of demand and revenue of the various nations of the world. According to this theory, a nation should pay attention to exporting to nations with similar average revenue levels and demand structures. Thus, China can separately expand exports to developed and developing nations of those manufactured goods for which both share a common demand; that is, based on the different demand structures of the two markets, exploit China's advantage of overlapping demand by exporting "high-quality" commodities to developed nations and exporting relatively "low-quality" commodities to developing nations.

I. The Special Characteristics of the Commodities Exported by China to Developing Nations

There is reason to believe that, compared with the majority of developing nations, China's technological factors are more abundant, while its demand structure is identical to theirs. Therefore, China has a comparative advantage with respect to technology-intensive commodities, particularly capital goods and most durable consumer goods, and can better suit the needs of these nations. Moreover, in the course of their industrialization, the market for these commodities will continuously expand.

Production of capital goods generally requires a fairly high level of technology, as well as the attainment of an economy of scale. Therefore, developed nations should have an advantage over China with regard to their natural endowment of these factors. However, as stated above, there is a wide disparity between the demand structure of developed nations and that of developing nations. The capital goods and durable consumer goods produced by developed nations are not only relatively expensive from the standpoint of developing nations, but their functioning is relatively complicated, making them hard to understand and operate. Therefore, they cannot suit the needs of the developing nation's markets. It is here that China's advantage lies.

West Germany's former finance minister, Dr Ludovic Erhard, reached the conclusion after visiting several Asian nations that simple machinery which is suitable for small-scale production can better arouse the desire of the residents of developing nations to purchase them than can expensive, seemingly astonishing precision equipment.

It is very hard to imagine that the entrepreneurs of developed nations might be interested in producing and exporting machinery and equipment which is already obsolete in their own countries. China's level of development, on the other hand, is close to that of most developing nations. There is a very large market within China for those simple machines and equipment, and thus it is easy to form an economy of scale and improve the competitiveness of products. Therefore, China should pay attention to developing production of "low-quality" goods and expanding exports to developing nations. Starting from China's present technical level, we should first ensure that these products have the basic function of "high-quality" products of the same type. Next, these goods should primarily save capital and not labor. Third, these products should use raw materials which are inexpensive and relatively easy for developing nations to obtain. Fourth, the level of automation of these products should not be too high, their designs should be simple, and they should not require complicated maintenance and repair.

The U.S. economist Frankel has examined the export situation in prewar Japan with reference to problems like these, and has obtained positive results. He confirmed that during the period of the great crisis from 1929 to 1933, Japan's manufactured goods exports developed greatly, and that Japan's strategy lay in satisfying the demand of the world's markets for inexpensive, low-quality manufactured goods, and in making developing nations its principal export market. Frankel, in discussing the concept of manufactured goods "quality," says in summary, "When a nation which has a huge domestic market for 'low-quality' commodities is competing for the markets of nations with a similar demand, it has greater competitiveness than those nations whose domestic markets are based on 'high-quality' commodities, because it does not have to make major adjustments of its production structure when expanding exports."

II. The Special Characteristics of the Commodities Exported by China to Developed Nations

The above discussion may lead one to believe that China should not export capital goods and durable consumer goods to developed nations, but actually, this is not the case. Our intention is to point out that it is unwise to overemphasize exports of technology-intensive goods to developed nations. For one thing, production of such products generally requires a fairly high level of technology. For another thing, the quality requirements of developed nations for such products are very high; and, moreover, China does not have a very great domestic demand for such high-quality products. Since research and development costs are a component part of the fixed cost of new products, economic returns can be obtained only by implementing large-scale production. Developed nations have a comparative advantage in the production of these products, so trade in technology-intensive products is more likely to be conducted among developed nations. The French economist Vernon has pointed out

that the U.S. is a nation with a very high level of per capita income and, at the same time, a very high cost of labor, and as such, its export products are inevitably centered principally around labor-saving or high-income products. However, this by no means excludes the possibility of the products already standardized by China's export industry. Some newly industrialized countries are successfully using standardized manufactured goods to make inroads into the markets of developed nations and are gradually expanding their market share. China can in the same way use "low-quality" capital goods and durable consumer goods to make inroads into the low-income stratum markets of developed nations. However, these markets are often ignored in developed nations.

There is another type of manufactured goods which should become a focal point of China's exports to developed nations, and that is intermediate goods. This type of goods has many special characteristics. Viewed from the standpoint of demand, since intermediate goods have already been standardized, their market is relatively sound, access to information is easy and smooth, and purchasing by enterprises is generally very regular. A sound market mechanism implies that price discrimination is sufficient to draw buyers to the producers. Viewed from the standpoint of supply, we can discover the special characteristics of the production of such goods. First, large-scale use of domestic raw materials. Secondly, the use of labor-intensive technology. Thirdly, there is also a great domestic demand for such goods, and therefore an economy of scale can be formed. These factors constitute advantageous conditions for producing intermediate goods. If we also consider the cost advantage of China's labor force, the intermediate goods exported by China are undoubtedly competitive on the world market.

In addition, commodities monopolized by China, i.e., commodities manufactured using raw materials or traditional technologies unique to China, should also be listed among the goods exported by China to developed nations. These commodities having distinctive Chinese characteristics are usually high-grade consumer goods of which China is the sole trader on the world market. Both developed and developing nations have a demand for such commodities. In view of the higher level of revenue of developed nations, they should become China's principal marketing target.

It is worth pointing out that, in this, we by no means exclude the possibility of exporting goods of the same type to both developed and developing nations simultaneously. However, there must be a basic requirement for doing this: namely, that customers are attracted under conditions of reduced costs. We should reduce the export of losing commodities as much as possible.

Report on Joint Ventures, Foreign Investment
HK0711032688 Beijing CHINA DAILY (BUSINESS WEEKLY Supplement) in English 7 Nov 88 p 1

[Text] All Chinese enterprises with foreign investment had surpluses of foreign exchange in the first half of this-year.

From January to August this year, China approved the establishment of 3,000 such enterprises with a contracted investment of \$2.8 billion, increase of 300 per cent and 170 per cent respectively over the same period last year.

From 1979 to August this year 13,000 enterprises with foreign investment were approved. Together with the agreements on developing offshore oil, they involve a contracted investment of \$25.6 billion, of which \$10 billion has been used.

Of the 6,000 enterprises that have been put into operation, 85 per cent are doing well.

Foreign Businessmen Invest More in Fuzhou
HK1411100588 Beijing CEI Database in English 14 Nov 88

[Text] Fuzhou (CEI)—Foreign investment has increased rapidly in Fuzhou, capital of south China's Fujian Province, and in the first nine months of this year, 95 foreign investment projects were approved, 2.7 times over the same period of last year.

Among the total investment, direct investment from foreign businessmen is 70 million U.S. dollars, 4.1 times that of the same period of last year. Meanwhile, 85 foreign-funded enterprises have gone into operation.

By the end of last September, Fuzhou City had approved 336 contracts involving foreign-funded enterprises, of which, 225 had gone into production. More than 120 million U.S. dollars were actually used in the city during the period.

According to the Fujian Provincial Government, all of the foreign-funded projects are productive, 90 percent of them in electronic and textile industries. Among the new projects, 22 have a total investment of more than one million U.S. dollars each and seven have the annual production value of more than 100 million U.S. dollars.

In the first nine months of this year, 14 solely foreign-funded enterprises involving a total investment of 13 million U.S. dollars have been approved to be set up and four of them have gone into production.

So far the annual profits is 29 percent on the average, and it is possible to recover the whole investment in three and half years. 80 percent of the foreign-funded

enterprises have achieved payments balance in foreign currency and the foreign currency holdings have exceeded 11 million U.S. dollars.

Guangdong Telecommunications Boosted by Foreign Capital

*OW1610190788 Beijing XINHUA in English
1311 GMT 15 Oct 88*

[Text] Beijing, October 15 (XINHUA)—Construction of nine major telecommunications projects has been completed in Guangdong Province with foreign capital totaling 173 million U.S. dollars during the past ten years, the Ministry of Posts and Telecommunications told XINHUA today.

The projects include five long-distance microwave trunk lines, 48,000 urban telephones, the Guangzhou mobile telephone network and the Guangzhou-Hong Kong optical fiber telecommunications system.

In cooperation with the Hong Kong Cable and Wireless Company, Guangdong has opened a 217-km, 2,700-channel Guangzhou-Hong Kong microwave telecommunications exchange system and a 1,920-channel Guangzhou-Hong Kong optical fiber cable since 1978, when the country adopted the policy of opening to the outside world.

So far, a total of 2,000 cables are directly linking Guangdong with Hong Kong—53 times more than in 1978. In addition, 46 counties in the province have opened long-distance direct-dialling services with Hong Kong.

With a loan of over nine million U.S. dollars from the Cable and Wireless Company of Britain, Guangdong has constructed and put into operation two 1,800-channel microwave cable systems linking Guangzhou with Hainan in Hainan Province and Shantou in eastern Guangdong. Guangzhou also put into use a mobile telephone system at the end of last year in the Pearl River Delta.

Also, with preferential loans from the Japanese Government, Guangdong has introduced 100,000 program-controlled telephones from abroad and constructed 4,800 long-distance program-controlled lines during the past ten years.

Inner Mongolia Strengthens Foreign Trade Ties

*SK1910081388 Hohhot Inner Mongolia Regional
Service in Mandarin 1130 GMT 18 Oct 88*

[Text] On the basis of statistics released by departments concerned, our region has so far established economic and trade relations and friendly contacts with more than 60 countries and regions in the world. Since the 3d Plenary Session of the 11th CPC Central Committee, while invigorating the internal economy, our region has unceasingly expanded foreign economic ties and contacts and has strengthened its ability to create foreign exchange through export every year.

By 1987, the region's total export trade volume reached \$300 million, an increase of 18.6 times over 1978. Of this, the total value of export commodities reached \$227 million, an increase of 12 times [bai fen dian] over 1978. At the same time, our region greeted foreign funds and technology with an attitude of opening to the outside world. During the past 10 years, the region concluded 65 items on using foreign capital and the contracts involved \$120 million. These imported items were mainly distributed in our region's major industrial and agricultural sectors. This has helped intensify the autonomous region's economic strength.

Foreign-Invested Firms Increase in Shandong

*HK2410145588 Beijing CEI Database in English
24 Oct 88*

[Text] Jinan (CEI)—The first nine months of this year have witnessed an increase of 35 foreign-invested enterprises in the city of Yantai, Shandong Province, with the investment totalling 54.35 million U.S. dollars, up 54 percent and 113 percent respectively from the same period of last year.

The increase is a result of strengthening of a foreign-invested enterprises service center by the local government, which has provided various services to foreign businessmen.

So far, the foreign-financed enterprises have totalled 75 in Yantai with the investment totalling 170.8 million U.S. dollars, of which 96.28 million dollars came from foreign investors.

In the first three quarters of this year, the output value of those foreign-financed enterprises that have been put into operation in the city reached 85.85 million yuan with a net profit of 15.53 million yuan. These enterprises also earned 7.66 million U.S. dollars through export.

Shanghai Development Zone Regulations Adopted

*OW1511184088 Shanghai Voice of Pujiang
in Mandarin to Taiwan 1000 GMT 12 Nov 88*

[Text] All foreign businessmen investing in the construction of production enterprises—including infrastructural facilities—in Shanghai's economic and technical development zones are entitled to the preferential treatment of being exempted from paying local income tax before 1995.

This and seven other provisions of the Regulations for Shanghai Economic and Technical Development Zones which deal with preferential treatment for foreign investors were examined and adopted at the Fourth Meeting of the Seventh Shanghai People's Congress Standing Committee on 10 November.

These are the first and latest regulations governing the development and management in Shanghai's economic and technical development zones.

Since August 1986 the State Council has approved the establishment of three economic and technical development zones in Shanghai—Minghang, Hongqiao, and (Caohejie)—which have a total area of 7.78 square kilometers.

According to official statistics, by the end of last September, 53 foreign funded projects with a total investment of US\$424 million had already been set up in the three development zones in Shanghai.

According to the regulations that have been adopted in principle, foreign-funded enterprises in the development zones can enjoy preferential treatment of the state and Shanghai at the same time. They are exempted from paying real estate taxes for [word indistinct] houses and newly constructed buildings for 5 years. Those who have problems in paying taxes according to regulations can pay lower or no combined industrial and commercial taxes. They are guaranteed loans for short-term working funds for production and distribution and enjoy priority treatment in receiving other credits.

According to the regulations, foreign businessmen may engage in real estate business and operate bonded warehouses in the development zones and, with the approval of competent authorities of the state, operate warehouses and factories for keeping or processing bonded goods for indirect trade.

The regulations also provide for all the preferential treatment to apply to public and private enterprises of Overseas Chinese and countrymen in Hong Kong, Macao, and Taiwan; and to enterprises financed by other economic organizations and individuals in the development zones.

The Shanghai Economic and Technical Development Zones Regulations will become effective on 1 January 1989.

Shenzhen Foreign Trade \$4 Billion in First 9 Months

*HK2610150988 Beijing CEI Database in English
25 Oct 88*

[Text] Shenzhen (CEI)—Foreign trade volume totalled 4 billion U.S. dollars at the Shenzhen customs of Guangdong Province in the first nine months of this year.

During this period Shenzhen City has overfulfilled this year's budget revenue and local revenue by 16.1 percent, up 63 percent over the same period of last year.

Tianjin Protects Foreign-Funded Enterprises *OW2210195388 Beijing XINHUA in English 1535 GMT 22 Oct 88*

[Text] Tianjin, October 22 (XINHUA)—The ongoing drive to check on investment in fixed assets will not affect foreign economic relations and trade, Vice Chairman of Tianjin's Planning Committee Lu Jinfa said here today.

He said the north China port city will continue to honor cooperation contracts signed with foreign countries and carry out the preferential policy for enterprises utilizing foreign funds.

Now Tianjin is to cut back on the construction of hotels, office buildings, guesthouses, meeting halls and projects which are not likely to yield profits or produce goods for export, said Lu.

He said the city will emphasize the construction of energy, telecommunications and transportation facilities, and projects involving raw and processed materials, chemicals and projects with advanced technology.

Tianjin will invest one billion U.S. dollars of foreign investment outside the state plan in the city's basic facilities and the construction of energy installations, the Beijing-Tianjin-Tanggu expressway, Tianjin Port, a power plant, a waterworks and export-oriented enterprises, he revealed.

Improved Export Policy Boosts Xiamen Profits *OW1810050188 Beijing XINHUA in English 0256 GMT 18 Oct 88*

[Text] Xiamen, October 18 (XINHUA)—The southeastern city of Xiamen earned 358 million U.S. dollars from exports during the first three quarters of 1988, more than double the amount for the same period of last year.

The increase in profits is attributed to the city's improved export policy.

As a result of the encouragement provided by the new policy, more products from the city were sold to the United States, Japan, Hong Kong and other areas.

The export of color television sets, computer-controlled telephones, bicycles, pleasure-boats and electric business machines increased by a substantial margin.

Under the terms of the new policy, export-oriented enterprises can now keep 95 percent of their foreign currency (as compared with 80 percent a year ago) and can use the money to buy or import materials or parts needed in production.

The resulting additional income from exports is reducing deficits and increasing surpluses for these enterprises.

The principle of independent company management and responsibility for profits and losses, adopted by the city as part of the country's reform of its foreign trade system, has also increased the enthusiasm of enterprises for exports.

The city's 200 or more enterprises with overseas funding have now embarked on a steady period of growth, after several years of operation.

Early this year, city officials revised the conditions for implementing foreign investment policy and prompted enterprises with foreign funding to double their export volume.

In the first nine months this year, 40 more foreign-funded enterprises in the city went into export production.

Ten enterprises using funds from Taiwan produced goods with imported raw materials, which were sold on U.S. and European markets.

The increase in exports has also been helped by the improvement of the city government administration, which gave its 130 enterprises direct control over imports and exports.

(Companies formerly had to submit their export plans to the city's economic relations and foreign trade committee for approval before embarking on projects.)

In addition, Xiamen's banks now offer priority loans to enterprises with good reputations and large export volumes, thus further encouraging the city's growth as an export center.

Hainan Establishes Port Group Company
*HK0912070388 Haikou Hainan Provincial Service
in Mandarin 2300 GMT 8 Dec 88*

[Text] The China Hainan Port Group Company was declared established in Haikou on the afternoon of 7 December. The company is jointly invested by the five port offices of Tianjin, Shanghai, Guangzhou, Zhanjiang, and Hainan, and the Shanghai Port Machinery Plan under the Ministry of Communications.

This is the first large port economic integration in China at the present time, with a total investment of 33 million yuan. Its main business includes shipping, shipbuilding, shipping agents, tourist services, cargo services, carrying and processing trade, development of real estate, construction port and auxiliary projects, and port technological services. Members of the company will give full scope to their advantages of abundant funds in developing transportation by water and making investment in foreign and domestic trade, to accelerate construction of the Hainan Special Economic Zone and to develop our country's ports in a diversified way.

Vice Governor Meng Qingping attended the inaugural ceremony, extending congratulations on the establishment of the China Hainan Port Group Company.

Shenzhen Increases Economic Relations With Japan

*OW0411074288 Beijing XINHUA in English
0915 GMT 3 Nov 88*

[Text] Shenzhen, November 3 (XINHUA)—With its investment totalling 300 million U.S. dollars by last September, Japan has become one of the leading investors in the Shenzhen Special Economic Zone, Zhang Hongyi, deputy mayor of Shenzhen, told the third meeting of the Japan-Shenzhen Cooperation Association that opened here Wednesday.

Shenzhen now has 49 Japanese-funded enterprises, 32 of which are operational, though the Japanese investment is still "very small" compared with its economic strength and overseas investment.

They manufacture electronics products, foodstuffs, chemicals, building materials, and clothing, according to Zhang.

As a special economic zone, where foreign investors enjoy tax cuts and other preferential terms, Shenzhen exported 18 million U.S. dollars worth of goods to Japan in the first half of this year, triple the amount of the same period in 1987.

However, the economic zone still suffered a trade deficit of 200 million U.S. dollars, Zhang said.

The economic zone suffered a trade deficit of 200 million U.S. dollars in the first half of this year, Zhang noted.

"If this problem remains unsolved for long, it will hamper the economic and trade relations between Shenzhen and Japan," the deputy mayor reminded the Japanese audience at the meeting.

In response to Zhang's speech, Tomoo Takada, president of the Japan-Shenzhen Cooperation Association, believes that Japan should increase its imports from Shenzhen and expand its direct investment in the area.

In this 3-day meeting, the Japan-Shenzhen Cooperation Association which was organized 2 years ago by the Japanese who were interested in Sino-Japanese trade, discussed ways to promote economic relations between Shenzhen and Japan, expand Shenzhen export to Japan, and Shenzhen's developmental orientation and strategy.

Italy To Open Two Additional Trade Offices

*HK1511120388 Beijing CHINA DAILY
in English 14 Nov 88 p 2*

[By staff reporter Shen Feiyue: "Italy Set To Bolster Trade Cooperation"]

[Text] Shanghai—Italy will open two more trade offices in China as part of its efforts to strengthen two-way trade and co-operation.

(?Marcello Inghilesi), chairman of the Italian Institute for Foreign Trade (ICE), told the press on his arrival in Shanghai that ICE will set up offices in the northeastern city of Shenyang and the southern city of Guangzhou.

"China is a large country," he said. "Italy is certainly very interested in its wide variety of products and rich natural resources. Italy is a fairly developed industrial country. Its technology can certainly benefit China's modernization drive.

"But since the two countries have different social and market systems, it demands efforts on both sides to expand mutual cooperation to bridge the differences."

Asked about Italian investment in China, Inghilesi said most small- and medium-sized Italian companies can't afford to invest in large industrial projects in China. "Most of them want to promote their own products in China," he said. "But the practice is certainly not welcome in China. So we have to pool the efforts of both sides to devise new ways for future cooperation."

He said ICE will act as a matchmaker in facilitating co-operation between small- and medium-sized Italian companies to invest in some projects involving relatively less money. ICE will arrange for Italian entrepreneurs to seek business opportunities in China and also will welcome Chinese counterparts to visit Italian companies.

ECONOMIC ZONES

'Hainan Island Comprehensive Development Plan' Formulated

OW2410031188 Beijing XINHUA Domestic Service in Chinese 0020 GMT 20 Oct 88

[Text] Haikou, 20 Oct (XINHUA)—A detailed "Hainan Island Comprehensive Development Plan" was recently formulated by Chinese and Japanese experts. The plan also describes the economic conditions and current development situation of Hainan Island.

The plan, formulated by the Land Bureau of the State Planning Commission and Japan's International Cooperation Project Corporation, has been approved by the government. The plan, having made a scientific analysis and appraisal of Hainan Island's development potential and having drawn on Chinese and foreign economic development experience, points out the orientation, objectives, strategy and projects of the island's development, as well as the geographic distribution of suggested economic development projects.

The plan sets the year 2005 as the target year and projects the following targets for Hainan Island's economic development: By the target year, the total social output value will increase from the 1985 value of 6 billion yuan to 34.4 billion yuan, or approximately 4,400 yuan per capita, calculated in accordance with 1980 prices. The provincial income will increase from the

1985 figure of 3 billion yuan to 15 billion yuan, or approximately 1,900 yuan per capita and slightly higher than the nation's average by that time.

The plan also puts forward relevant development strategy—to shift the main economic sector from agriculture to industry and introduce a production structure of integrating industry, agriculture and tertiary industry. The plan also deals with such matters as agriculture, industrial and mining enterprises, energy source, transport, economic zones, population and investment.

Foreign Investment Attracted to Hainan

HK2710155188 Beijing CEI Database in English 27 Oct 88

[Text] Haikou (CEI)—Hainan Province, set up less than a year ago, has become the attraction for foreign investors.

To date, 221 solely foreign funded enterprises, joint-ventures and co-operative enterprises with a contracted capital of 360 million U.S. dollars have been approved.

Of the enterprises, more than 60 percent are solely funded by foreign firms.

Hainan Investment Continues To Rise

HK2810125988 Beijing CEI Database in English 28 Oct 88

[Text] Haikou (CEI)—Domestic and outside investors contracted to invest 4.7 billion yuan and 300 million U.S. dollars in 2,100 enterprises in China's biggest special economic zone of Hainan province in the first three quarters of this year.

The overseas investment in 319 projects totalled 500 million yuan and 300 million U.S. dollars, according to an official from a local investment administration office. In early October, the Thai Chia Tai group decided to invest 350 million yuan and 300 million U.S. dollars in two projects.

The projects are in industry, agriculture, communications, commerce, real estate, tourism, banking and culture, the official said.

Meanwhile the island province is to forge ahead with development of its infrastructure despite the national drive to cut capital construction, according to a senior official.

Power Industry Develops in Hainan Capital
OW2810105488 Beijing XINHUA in English
0836 GMT 26 Oct 88

[Text] Haikou, October 26 (XINHUA)—The first phase of a projected 51,000-kilowatt generating unit has been installed and put into operation in the Macun Power Plant in Haikou, capital of south China's Hainan Province, according to an official of the Hainan Power Supply Company.

Hainan, the largest special economic zone in the country, is becoming one of China's major trading centers with the outside world, but it has been experiencing difficulties in adapting its available power resources to increasing demands.

The local government has paid great attention to solving this problem and plans to install two additional transformer substations of 110,000 and 35,000 volts which will go into operation this winter and in the coming spring.

In addition, the construction of another 220,000-volt substation will be completed next June.

The second phase of the Macun Power Plant project—two 125,000 kw generating units—will go into operation next year, the official said.

And to further increase their resources, Hainan authorities also plan to build a large thermal power plant.

Hainan To Forge Ahead With Capital Construction
OW2810130488 Beijing XINHUA in English
0930 GMT 27 Oct 88

[All figures as received]

[Text] Haikou, October 27 (XINHUA)—Domestic and outside investors contracted to invest 4.7 billion yuan and 300 million U.S. dollars in 2,100 enterprises in China's biggest special economic zone of Hainan Province in the first three quarters of this year.

The overseas investment in 319 projects totalled 500 million yuan and 300 million U.S. dollars, according to an official with a local investment administration office. In early October, the Thai Chia Tai Group decided to invest 350 million yuan and 300 million U.S. dollars in two projects.

The projects are in industry, agriculture, communications, commerce, real estate, tourism, banking and culture, the official said.

Meanwhile the island province is to forge ahead with development of its infrastructure despite the national drive to cut capital construction, according to a senior official.

Liang Xiang, the governor, said the scale of infrastructure construction will not be narrowed nor will credit be reduced. "In other words," Liang said, "reforms will not slow down in our case."

To this end, he said, the local authorities will do all they can to facilitate foreign investment.

Shenzhen Told To Correct Foreign Currency Management
HK0411014188 Hong Kong HONGKONG STANDARD (BUSINESS STANDARD) in English 4 Nov 88 p 1

[By Feng Gu, our correspondent in Shenzhen]

[Text] The Shenzhen government is working on measures to solve its foreign currency management problem under instructions from the central government.

The measures are to be part of a campaign to control foreign currencies circulating in the special zone, a Shenzhen official told BUSINESS.

But he added the task would be difficult.

Two years ago, the central government allowed Shenzhen to open its foreign currency market. This meant it could adjust the exchange rates of foreign currencies according to the market needs, instead of following officially set rates.

"Although that policy provided Shenzhen a more flexible environment in terms of foreign trade, it has caused many problems at the same time," the official said.

"The major problem is that most of the hard currencies in other places have flown into Shenzhen over the past few years, which seriously influenced the trades of those areas. Even worse is that local governments find it helpless to cope with the problem because Shenzhen usually gives a higher exchange rate."

The Shenzhen government even set up an "official" black market—the Shenzhen Foreign Currencies Adjustment Centre—to help inland units buy scarce hard currencies.

"The original purpose for setting up such an official adjustment centre was to turn Shenzhen into the first international financial centre in China. However, it is now facing great difficulties due to the booming real foreign currency black market," the official said.

He said the problem was that not only had the real black market run out of control after the establishment of the centre, "but it is getting more and more active since black market exchange rates are allowed officially".

It was precisely because of these problems that the central government ordered Shenzhen to find a way out.

"Work is going on, but we have not been able to reach final agreement. We have to take the interests of places outside Shenzhen and the impact of a tightening currency policy on the outside development of the special zone," the official said.

"I think the ultimate measure to solve the problem in forex management does not lie on our local government but on the central government," he said.

The Chinese government has placed its hard currencies under tight control over the past four decades, believing it is still too early for China to open its currency market.

"Statistics show that China's foreign currency savings reached only US \$18.17 last June, which is far from enough for an open currency market," the official said.

He said the only way out was to have a perfect enterprise system so that China could become a perfect market.

"The major conflict in enterprise reform is that between public ownership and a market-oriented economy. We have to change the traditional concept that the two are like water and fire."

LABOR

Necessity, Feasibility of Reforming Labor System Stressed

40060088 Beijing JINGJIXUE ZHOUBAO in Chinese
16 Oct 88 p 4

[Article by Zheng Jibing 6774 4949 0365 and Lu Liqin 0712 4539 0530: "The Necessity and Feasibility of Reforming the Labor and Employment System"]

[Text] The reform of the labor and employment system has attracted increasing attention both in theory and practice. Given the fact that neither the price reform nor the ownership reform can advance with big strides, it is all the more important to let the reform of the labor and employment system move ahead first.

The Necessity of Reforming the Labor and Employment System

The achievements of the 10 years of reform are outstanding, and so are the resulting problems. For instance, distorted prices, inflation, irrational industrial structure, fiscal deficits, poor economic performance of enterprises, and low enthusiasm of employees for work are major problems which we have long worried about but failed to find a good solution to. Of course, there is a solution for each problem, but we should realize that the reform of the labor and employment system plays a great role in solving all the problems.

First, through the employment competition of employees, the reform of the labor and employment system can change employees' pursuit of maximum income to job security, thus effectively curbing the expansion of consumption funds.

Second, by cutting down the number of redundant personnel, the reform of the labor and employment system can substantially increase the economic returns of enterprises and increase their ability to cope with the price increases of raw materials and to issue subsidies for farm and sideline products and foodstuffs, thereby creating the necessary conditions for the development of price reform.

Third, the reform of the labor and employment system can rid enterprises of the heavy burden created by redundant personnel, increase their ability to assume responsibility for their own profits and losses, enable them to gain a foothold in the environment of market competition, and thereby provide an important guarantee for the ultimate success of the ownership reform.

Fourth, through the establishment of the labor market, the reform of the labor and employment system can help establish markets of other factors and speed up the transfer of productive factors by removing the personnel obstacle, which is the most difficult task in the transfer of productive factors, thereby providing necessary prerequisites for readjusting industrial structure and rationalizing natural resources through the market.

Fifth, the reform of the labor and employment system can reduce the pressure imposed by employees on enterprise managers and eliminate pressure from lower levels for the growth of the stratum of Chinese entrepreneurs.

Sixth, the reform of the labor and employment system can substantially improve the productivity of Chinese laborers to prevent China's low-wage advantage from being offset by its equally low productivity, thereby making Chinese products more competitive on the international market and China more appealing to foreign investment and creating indispensable conditions for the development of export-oriented economy in China.

Seventh, the reform of the labor and employment system can encourage workers to save more and spend less by making them worry about losing their jobs, thereby substantially reducing the pressure caused by people rushing to buy things at the market and withdraw money from the bank.

Eighth, through the competition of employment opportunities, the reform of the labor and employment system can establish a truly equal (equal opportunity) relation and find a better solution to the problem of equality and efficiency.

Ninth, through employment competition, the reform of the labor and employment system can give every worker a sense of crisis and thus change the danger of "globalization," which now faces the Chinese nation, into crisis and pressure for every individual and find power amid the threat of such a crisis to help individuals and the whole nation get out of the calamity.

Tenth, by changing working and living habits, the reform of the labor and employment system can help the Chinese get rid of a dependent mentality and conservative concepts, which were formed over a long period of time, and the inertia of seeking security and fearing changes, and change the national mentality, thereby serving as the central link in coordinating the economic and political structural reforms and the transformation of national culture and tradition.

The above 10 points have fully explained that the reform of the labor and employment system is an important change, which will exert wide influence, touch on many profound issues, and help cure many chronic maladies, and that if we hurry up and deepen this reform, we will certainly witness greater achievements in China's economic reform and development.

The Feasibility of Reforming the Labor and Employment System

In fact, nobody has ever really negated the necessity of the reform of the labor and employment system, but some people have underestimated the urgency of carrying it out first. A very important reason for such a view is that they all think that the reform of the labor and employment system is too risky, therefore, it is not feasible in reality. However, if we analyze it seriously, we will discover that the feasibility of the reform of the labor and employment system is greater than that of price reform as far as risk is concerned and greater than that of the ownership reform (and the price reform) as far as operation is concerned. Concrete explanations are as follows:

First, the price reform affects a very wide range of people, and almost all production enterprises and consumers suffer losses because of it. But in the reform of the labor and employment system, the only people who really suffer losses are those who have lost their jobs temporarily. So as far as the scope of influence is concerned, the reform of the labor and employment system is less risky than price reform.

Second, price increases resulting from the price reform can make everybody suffer except for a few people who are either "bureaucrats or speculators." But in the reform of the labor and employment system, except for those who have lost their jobs temporarily, everybody who has managed to keep his job can increase income as a result of production development and a higher productivity. Therefore, there will be more people who benefit from the reform, than suffer from it.

Third, discontent caused by loss of employment is definitely stronger than that caused by price increases, but there are many more people complaining about the latter than about the former. What is more important is that when the people complain about price increases, they blame everything on the government; whereas when the people complain about unemployment, they cannot blame it all on the government unless the government indiscriminately and willfully lay off workers and fail to establish a good unemployment protection system. So no matter how great such discontent is, its social repercussion will not be greater than that caused by price increases.

Fourth, price increases have a definite impact on the people's living standards and therefore inevitably force the people to lower their living standards. Reforming the labor and employment system, however, will not necessarily create a massive army of unemployment overnight. According to the estimate of people concerned, enterprises in China now have at least 20 millions vacant positions which require intensive labor under difficult working conditions (see JINGJI RIBAO 7 Sep). Due to this, the result of the reform of the labor and employment system probably is transferring a large number of people from easy jobs to hardship posts, and what needs to be lowered is not the standards of living but working conditions. In comparison, it is obviously much easier for the people to accept a lower standard of working conditions than a lower standard of living.

Fifth, price reform is both sudden and sustained; labor and employment reform is not. When workers lose their jobs, they first go through the process of optimum organization of enterprises, then wait for job openings in their units, and then go to the labor market. Therefore, unemployment does not occur suddenly. And workers may be reemployed during the period when they go through the process of optimum organization of enterprises and wait for jobs on the social labor market. If they really cannot find any job, the state may work out corresponding policies to stipulate, for instance, that priority be given to placing those who have been unemployed for over two years to ensure that the unemployment period is not too long for any unemployed individual. In this way, the pain caused by the reform of the labor and employment system will not be continuous for each individual and the public can usually take it.

Sixth, price increase, which is a normal phenomenon in the development of the commodity economy, is hard to accept for the time being by the Chinese, who are used to stable prices. However, the Chinese are not unfamiliar with unemployment and waiting for jobs. Although there are new problems in facing the new reform of the labor and employment system, as long as we do a good job in relevant propaganda and explanation work, we believe that the public can withstand this new trial.

Seventh, propaganda and explanation work cannot, of course, relieve the pain of unemployment, but the state can adopt many measures to alleviate it. For instance,

the state can extend the period of unemployment compensation, properly raise the standards of unemployment compensation, and limit the period of unemployment, the number of unemployed members in each household, etc.

Eighth, to make big strides, the price reform needs definite financial support from the state, and the housing reform alone requires a much greater amount of state subsidies than the non-staple food subsidies. Because of this, it will put great pressure on state revenue. On the contrary, the reform of the labor and employment system can reduce expenditure and increase income for the state by reducing the number of redundant personnel and increasing the economic returns of enterprises. Because of this, not only will it not put pressure on revenue, it will also effectively support state revenue. Therefore, as far as the dependence on state financial support is concerned, the reform of the labor and employment system is much more feasible than price reform.

Ninth, ownership reform does not need a lot of financial support compared to price reform, but it needs various preparations in technological and organizational fields and in the building of systems, which cannot be easily accomplished within a short period of time. Therefore, ownership reform is obviously not feasible either in reality.

What the reform of the labor and employment system needs to do in regard to principles and guidelines is to formulate relevant policies, laws, and regulations and establish the social labor market whose central task is to help, control, and train unemployed personnel in regard to concrete matters. Existing state labor, personnel, civilian affairs bureaus, human resource exchange centers, and various state and civilian adult education organs can all be used to handle various tasks of the labor market after proper coordination and transformation. Therefore, the organizational construction needed for the reform of the labor and employment system is easy to carry out and has few obstructions. This is an important reason why the reform of the labor and employment system is much more feasible in reality than ownership reform.

Tenth, it is unavoidable for price and the ownership reforms to contradict and conflict with the current reform measures and lose the stability of different stages. But the reform of the labor and employment system does not have such problems.

Everybody knows that since 1987, China's reform of the economic structure has followed the path of historical necessity and come to the current road of "the contract system" in strict accordance with the thinking of invigorating enterprises. If the price reform makes big strides immediately under this situation, it will undoubtedly give the "contract system" an enormous pounding and cost the current stage of the reform its stability. The

reform of the ownership system, which is centered on the shareholding system and negates the "contract system," should not be carried out any time soon.

The reform of the labor and employment system is, however, compatible and coordinated with the contract system. First, the contract system has provided strong internal motive power (it is very hard for enterprises to have such power before the implementation of the contract system) for enterprises to reduce the number of redundant personnel. Second, the current contract system works in two directions: namely enterprises' contracts with the state and enterprises' internal contracts. Such enterprises' internal contracts provide the exact turning point for the optimum organization of enterprises; the latter is the inevitable choice and best way for the development of the former. So enterprise contracts, especially their internal contracts, inevitably require that the reform of the labor and employment system make greater strides because the reform of the labor and employment system not only will not hinder the development and perfection of the "contract system" but serves as an indispensable measure for the development of the "contract system." It looks like that through the implementation of enterprises' contract system and the reform of the labor and employment system, China will come out of the current predicament of its economic reform and lay a solid foundation for the next step of price and ownership reforms.

Judged from the above 10 points of analysis, we have every reason to come to the conclusion that the reform of the labor and employment system is much more feasible than price and ownership reforms, and it must be considered extremely urgent in accordance with the above-mentioned 10 points of significance in the economic reform and development. If we say that price and ownership reforms will take five or even eight years to complete, the reform of the labor and employment system must be able to make major breakthroughs within two or three years. Only by doing so can it create the necessary conditions for the price and ownership reforms. Conversely, if the reform of the labor and employment system is placed behind price and ownership reforms, China's economic predicament will continue for a long time and eventually obstruct the smooth progress of price and ownership reforms.

Joint Circular Bans Child Labor

*OW0511052688 Beijing XINHUA in English
0216 GMT 5 Nov 88*

[Text] Beijing, November 5 (XINHUA)—Some central departments have issued a joint circular banning enterprises from hiring child labor, a practice that has been common in many parts of the country.

Worked out jointly by five government departments including the Ministry of Labor, the Education Commission, and the All-China Federation of Trade Unions, the circular prohibits all working units, either state-run or privately-owned, from employing child workers.

Although China's laws clearly state that no worker under 16 can be employed by enterprises, an increasing number of enterprises, especially private ones in coastal areas, have been doing so, said an official from the Ministry of Labor.

"In some enterprises, about 20 percent of their work force are children," he said.

Luring a lot of schoolers away from their studies, the practice has actually harmed the children both mentally and physically and will inevitably lead to negative consequences, the official said.

According to the circular, those who break the regulations will be given a 3,000 to 5,000 yuan fine for every child worker employed.

Enterprises or individuals who continue to employ underage workers despite the imposition of fines will be forced to stop business and their licenses will be withdrawn. They will also be punished according to law.

'Self-Employed' Obtain Hiring Permits

*HK0711044888 Beijing CHINA DAILY in English
7 Nov 88 p 3*

[By staff reporter Gao Jin'an: "City's Private Firms Get Hiring Permits"]

[Text] All self-employed business people in Beijing's four main districts have now obtained the hiring permission licences required under State regulations issued earlier this year.

Under the regulations, self-employed business people can now hire as many workers as they like. But they must first obtain a hiring permission licence from the Municipal Labour Bureau.

Previously if they hired eight or more people, they were considered private and not self-employed enterprises.

At present, 11,000 private businesses—employing 18,000 people—in the city's urban areas have their licences, Zhang Xinqing, a division chief from the Municipal Labour Bureau told China Daily.

One hundred and thirty-six of these private businesses each employ more than eight workers.

And according to the State regulations, such businesses should be classified as private enterprises.

Zhang cited self-employed Li Xiaolin as an example. Li hired 94 people, the highest figure in the capital, for his Senlin Musical Instruments Factory.

"The hiring permission licence is not being used to restrict the development of self-employed industrial and commercial businesses, but is simply a legal procedure," he said.

But he said the new policy which requires private businesses to have these licences could be used to weed out self-employed business people who hire child labourers or ignore labor protection and regular working hours.

Private business have the freedom to hire anyone they like except children undergoing their nine years' compulsory education.

He said State employees will be able to moonlight in these businesses since they are no specific rules or regulations forbidding the practice, he added.

More than 9,600 of the workers hired by these private businesses are women, Zhang said. Most are aged 16 to 22.

The hiring contracts stipulate the rights, responsibilities and interests of both employer and employee.

If labor disputes occur, the parties involved can either ask the neighbourhood committee to mediate, appeal to arbitration committees of districts and counties or even take the case to court.

When their employer-employee contract expires, they are required to inform the labour bureau to cancel the registration.

Zhang said that the issuing of licences began in April. And a survey conducted by the bureau in the city's four main districts—Chaoyang, Chongwen, Haidian, and Xuanwu—shows that all self-employed businesses which hired workers have obtained the hiring permission licences.

Their businesses range from restaurants and repairshops to handicrafts and transportation.

"The hiring permission licence system has put both the employers and employees hearts at ease, he said. "Before, hiring labour by the self-employed was regarded as exploitation."

According to Zhang, Beijing was the first city in China to issue hiring permission licences in the country.

September's Labor Force Statistics Detailed

*HK0111094988 Beijing CEI Database in English
1 Nov 88*

[Text] Beijing (CEI)—Following is a chart showing the labor force employed by various sectors of the national economy in September, 1988.

unit: 10,000 persons

Sector	Total Units	Staff and Workers in State-Owned Units	Staff and Workers in Collectively-Owned Units in Cities and Towns	Others
National Total	13,290.7	9,727.1	3,482.2	81.4
including:				
Central Organs	2,060.6	2,060.6		
Farming, Forestry, Animal Husbandry, Fishery and Water Conservancy	838.2	791.3	46.5	0.4
Industry	5,993.4	4,105.3	1,822.1	66.0
Geological Survey and Prospecting	106.1	106.0	0.1	0.0
Construction	994.8	609.8	384.0	1.0
Transport, Communication, Posts and Telecommunications	777.0	575.5	200.4	0.9
Commerce, Catering Trade, Supply, Marketing and Storage of Materials	1,670.4	907.6	758.8	4.0
Real Estate Management, Public Utilities Service, Trade and Consultancy service	348.5	241.5	98.0	9.0
Health, Sports and Social Welfare	370.5	301.5	69.0	0.0
Education, Culture and Arts, Broadcast and TV	1,073.2	1,039.9	33.2	0.1
Scientific Research and General Technical Service	142.7	139.9	2.8	0.0
Banking and Insurance	161.8	119.9	42.5	0.0
Government Agencies Political Parties and Popular Organizations	811.1	789.3	24.8	0.0

Labor Productivity of State Enterprises
HK1111150088 Beijing CEI Database in English
11 Nov 88

[Text] Beijing (CEI)—Following is a chart of labour productivity of state-owned enterprises with independent accounting in August, 1988, according to CSICSC.

	unit	Aug 88	Aug 87
Industry	yuan/person	1522	1418
including:			
Light industry	yuan/person	1963	1810
Heavy industry	yuan/person	1301	1233

POPULATION

Minister Admits Population Target May Not Be Met
OW0111030388 Beijing XINHUA in English
0226 GMT 1 Nov 88

[Text] Beijing, November 1 (XINHUA)—China's population, which the country plans to limit at 1.2 billion by the year 2000, will possibly exceed that target, according to a senior government official in charge of family planning work.

Today's CHINA DAILY quoted Peng Peiyun, minister in charge of the State Family Planning Commission, as saying that the recent studies and surveys indicate that the nation's population could reach 1.27 billion by the turn of the century.

The 1.2-billion target was set in 1980 before the national census in 1982 and "it probably did not reflect a realistic picture of our population situation," Peng said.

She said plans are being drawn up to conduct another national census in 1990 so that a more realistic population target will be set.

"Before that, however, the figure of a 1.2 billion population is still our target, and we will try to realize that by the end of this century with all possible efforts in the coming 12 years," she said.

According to Peng, China's family planning policy, which is known as one of the most effective in the world, has been followed by both urban people and rural people who are educationally and financially better off.

Her commission's statistics show that over 32.3 million couples are willing to have only one child, while 78 percent of all couples use contraceptives.

But encouraging couples to have one child does not mean the same as enforcing the "one child, one family" policy, according to another official of the State Family Planning Commission.

"We are not demanding that all fertile women have only one child," she said.

In all, 32.3 million couples have volunteered to have only one child, 18 percent of the number of the couples of childbearing age nationwide.

That means not all families have only one child each, because more than half of the families have more than one child, and rural couples who have a daughter as a first child are allowed to have a second baby and the ethnic minority people enjoy even more freedom in this respect, Peng said.

Family Planning Stations Go to Grassroots
*OW2410095588 Beijing XINHUA Domestic Service
in Chinese 1150 GMT 21 Oct 88*

[By reporter Li Pei and Chongqing People's Broadcasting Station reporter Yu Hui]

[Text] Chongqing, 21 Oct (XINHUA)—China's family planning service stations network, an outgrowth of the family planning work, has taken shape after eight years of endeavor. At present, there are 2,076 county-level service stations throughout the country with a staff of 22,663 family planning workers. They now form a contingent of professional grassroots family planning workers serving hundreds and thousands of child-bearing couples.

These service stations adhere to the guidelines of educating the masses and spreading knowledge of contraception and birth control among the people. They gradually standardize and systematize propaganda work and the organization and management of family planning work. They go down into rural areas and grasslands and by means of diverse and vivid propaganda activities provide the masses with basic knowledge on population, family planning, contraception, eugenics, and child care. They have printed some 40 million propaganda leaflets, given half a million videocassette, movie, and slide shows, sponsored 80,000 exhibitions, and provided some five million people with consulting services in the policy and theory of family planning.

The family planning service stations, together with health departments, undertake the arduous task of rendering services in the areas of birth control and eugenics. They have carried out some 70 million birth control surgeries, provided some five million people with the knowledge of eugenics, and spread contraception and birth control knowledge to eight million people.

Family planning service stations, under the guidance of local family planning committees, have undertaken the task of training grassroots cadres and have sponsored nearly 30,000 training classes. They have helped train some 250,000 rural family planning cadres and technicians and have been instrumental in markedly raising the theoretical and professional levels of these family planning cadres and technicians.

Hunan Reports Family Planning Problems
*HK1011055788 Changsha Hunan Provincial Service
in Mandarin 2300 GMT 9 Nov 88*

[Excerpt] On 9 November, (?Yang Daoyuan), director of the provincial family planning commission, gave a news briefing on the recent sample survey on child-bearing carried out in the province. The results of the survey showed that the birth rate is high, there are many births of a second or further child, and there is a serious degree of early marriage and child-bearing. As a result family planning in Hunan is in an extremely passive state. After studying this situation, the provincial party committee and government leaders have decided on seven measures for fundamentally reversing this backward situation and keeping the birth rate below 12 per 1,000.

This survey, which asked 67 questions about child-bearing, covered 88,110 persons of 21,954 households at 814 locations. The main data compiled are as follows: The province's birth rate this year is 25.84 per 1,000, which places Hunan among the 11 provinces with relatively high birth rates. In the 1st half of this year, the percentage of births of a second or further child was 13.54, which is relatively high. Last year 57.24 percent of births in the province did not accord with the policies. Early child-bearing accounted for 20.8 percent of the births of a first child.

Yang Daoyuan said that the provincial party committee and government have demanded that the party committees and government at all levels gain fresh understanding of family planning work and deal strictly with births not covered by the plans. They have also decided to increase spending on family planning by one yuan per capita, beginning next year. They have decided to convene a family planning work conference and a gathering to study specific ways of changing the current passive situation, commend the advanced, and form a climate for family planning. This winter the whole province must launch an inspection of five problems, including births not covered by the plans and early marriage and child-bearing. Contraceptive measures must also be organized and firmed up. [passage omitted]

Yunnan Birth Rate Declines in 1988
*HK1111064688 Kunming Yunnan Provincial Service
in Mandarin 1100 GMT 9 Nov 88*

[Text] According to a provincial meeting on family planning being held in Kunming: although Yunnan Province, like all other provinces, is in the third peak period of birth rate, the province this year has done better than last year in fulfilling all the major targets of family planning, thus paving the way for keeping the province's total population below 35.7 million by the end of this year.

Since the beginning of this year, the party committees and governments of all the prefectures, autonomous prefectures, and cities in the province have strengthened

leadership over family planning. They have assigned the birth control task together with other economic tasks and have considered both aspects in assessing subordinate organs' performance. In addition, family planning departments at all levels have made greater efforts to rectify their work style and improve their service. As a result, the province's sterilization rate from January to September this year has risen by 4.69 percent over the same period last year, while the number of newly born second children during the same period has decreased by 15,799 as compared with last year.

Provincial family planning commission Director (?Jiang Jiazhu) told this reporter that although Yunnan Province has done quite well this year in family planning on the whole, it is still possible that the population growth rate will rise again. For the time being, a key task is to further step up propaganda, further enhance the masses' sense of the relationship between population control and per-capita income, and remind them of the importance of family planning as a long-term task. At the same time, we must make every effort to raise the overall sterilization rate, enforce permanent sterilization measures, and thus create a fine environment for invigoration of Yunnan's economy in terms of population control.

TRANSPORTATION

Multifaceted Transportation System Emphasizing Air Travel Outlined

40060014 Beijing GUOJI HANGKONG
[INTERNATIONAL AVIATION]
in Chinese Sep 88, Oct 88

[Article by Gu Changyao 7357 2490 5069: "Building a Rational Structure For a Modern Transportation System (Part 1)"]

[Sep 88 pp 29-31]

[Text] *Editor's Note: Since 1984, the Management Institute of the Beijing University of Aeronautics and Astronautics has been applying the basic theories and methods of systems engineering to a large scale survey, study, and analysis of the present state and structure of China's transportation industry. Using rough calculations, it has proposed ideas for the improvement of the existing transportation structure, and for building a rational transportation structure. Professor Gu Changyao's article provides a briefing on these matters in four parts as follows: "Status of and Problems in China's Transportation Industry," "Status of China's Transportation Structure, and the Trend of Developments Abroad," "Systems Engineering Methods For the Building of a Rational Structure for a Modern Transportation System," and "Energetic Development of Air Transportation and a Civil Aviation Manufacturing Industry." Because of space limitations, we have divided his article into two sections for separate publication.*

This article written by Gu Changyao, Professor of Beijing University of Aeronautics and Astronautics, examined and analysed existing state and structure of transportation system in China, making some suggestions to improve the structure of the system with results computed by the method of system engineering. [Preceding paragraph in English]

Transportation is necessary for accelerated development of a modern economy, and it has been a key motive force for economic takeoff in numerous economically developed countries.

A modern transportation system must be founded on a rational transportation structure if transportation is to be developed most effectively to meet the needs of national economic development.

Civil air transportation is a modern means of transportation that is highly effective, fast, safe, requires little investment, and shows quick results. It is an important element in the formation of a modern transportation structure. Development of civil air transportation without development of civil air transportation facilities, and a manufacturing industry for its basic transportation equipment (airplanes), results in a lack of required material support. An overall view from the strategic heights shows that development of air transportation and air transportation equipment in coordination with basic equipment manufacturing industries should be the basic ingredients in building a comprehensive, modern transportation system for the country, and is one of the basic national policies required for vigorous development of the national economy and expansion of the tertiary industry of transportation.

Present Status and Problems in the Country's Transportation Industry

Since the founding of new China, the transportation industry has developed considerably from its formerly extremely weak foundation. The number of transportation routes has increased markedly for the shaping of a fledgling transportation network. Certain improvements have been made in the layout of the transportation network, and changes have begun to be made in the transportation structure. As of the end of 1985, the country had 52,000 kilometers of railroad, 942,000 kilometers of highways (84 percent of which were below grade 4), and 109,000 kilometers of navigable inland waterways, 1.4, 10.7, and 0.5 times again as much respectively as in 1949. Domestic and international air transportation routes totaled 277,000 kilometers in length, and with further rapid development between 1985 and 1987, air route length increased to more than 500,000 kilometers, in the building of "air bridges" with 35 cities in 28 countries. Since 1978, total air transportation volume and passenger volume have increased by an average 23 and 20 percent respectively each year, vastly higher than the average speed of development of the world's civil aviation. Since 1980, civil aviation has

added large and medium size aircraft including Boeing 747's, 737's, and 767's, as well as Airbus MD-82's, and TU-154's, which serve as the main aircraft used on international air routes and domestic trunk lines. New feeder line aircraft such as the Chinese produced Yun 7-100 have replaced old aircraft such as the IL-14. Pipeline transportation has been built up from nothing to 13,000 kilometers. Both transportation facilities and basic equipment have seen improvements. Principal coastal ports now have 454 anchorages, 153 of them deep water anchorages. Thirty percent of trains are pulled by internal combustion or electric locomotives. In highway transportation, the trend is toward larger vehicles, and greater use of diesel engines. The percentage of semi-trailers, full trailers, and containerized cargo trucks has gradually increased, and high speed highways are beginning to be built. Large and medium size seaports have virtually completed the mechanization of loading and unloading. Improvements have been made in civil aviation navigation and meteorological systems, and plans are underway to expand and build more airfields.

However, it should be realized that transportation remains a conspicuously weak link in development of the country's national economy. In terms of both quantity and quality, it is still a long way from being able to satisfy needs in economic development, particularly the need for a smooth flow of commodities. The current intense shortage of passenger and freight transportation is getting worse day by day, and the conflict between supply and demand is increasing steadily. Up until 1978, passenger volume averaged a 7.8 percent annual increase, and freight volume increased 10.3 percent. From 1978 through 1985, the annual rate of increase in passenger and freight transportation volume was 13.7 and 9.1 percent.

The present state of the country's transportation and problems in it are manifested in the following several ways:

1. Shortages. There are too few transportation lines, and the size of the transportation network is too small.

Take the railroad network at the beginning of the 1980's as an example. The density of China's railroad network is 5.43 kilometers per 1,000 square kilometers, and only 10.1 kilometers in the most highly developed eastern part of the country. Comparison with other countries for the same period shows 32.7 kilometers for the United States, 56.7 kilometers for Japan, and 20.4 kilometers for India. The number of people per 10,000 engaged in transportation and communications work is also much less than in these countries.

2. Slowness. The transportation industry has developed slowly, particularly during the Second 5-Year Plan period, the increase in motive power lagging greatly behind increase in transportation volume.

From 1953 through 1984, China's total investment in transportation averaged an annual 2.3 percent of gross output value. In Japan, however, it ranged between 3.5 and 4.1 percent from 1955 through 1981, and in the United States, it averaged 4.6 percent from 1979 through 1981. Even such a small investment percentage shows a trend toward decline. Therefore, as a result of a tenfold increase in passenger and freight volume, and a sixfold increase in the length of the transportation network, transportation units have long had to contend with overloading, and have been forced to adopt various measures that restrict development of production such as "fixing output on the basis of available transportation," "limiting output on the basis of available transportation," and "fixing sales on the basis of available transportation."

3. Lopsidedness. The transportation system as a whole has not been looked at in the building of a rational transportation structure.

This failure has been conspicuously manifested in the irrational pattern of the transportation system, and the irrational internal structure of the transportation system. Transportation is fairly well developed along the country's east coast, which accounts for 71.6 percent of national industrial and agricultural gross output value, and 66.2 percent of the country's population. In the natural resources-rich middle and western sections of the country, however, transportation is not developed, and development of the various forms of transportation has not been coordinated. Highway, water, air, and pipeline transportation are not as developed as they should be, nor have their advantages been fully exploited. Yet another manifestation has been a lack of planning for development that takes all factors into account, such as insufficient correlation of railroad loading and unloading capacity to highway collection and distribution capacity, the formation of a complete transportation system being consequently difficult. There has also been a lack of across-the-board consideration given to the development of transportation in relation to other industries. For example, water transportation, water conservancy, and hydroelectric power have been developed individually to the neglect of each other; there has been a disjunction between the pattern of industry and building of a transportation network; and the high percentage of transportation taken up by primary products causes a waste of transportation capacity.

4. Low Level. Both technical level and management level are low.

The low technical level shows up in two ways. First is the backwardness of technical equipment. The current technical level of China's transportation facilities and transportation equipment is about that of developed countries during the 1940's and 1950's. The percentage of internal combustion and electric locomotives used in railroad transportation is low. Steam locomotives, which have been eliminated abroad, continue to be the main means used for

pulling trains in China. Railroad load-bearing capacity is low, and maintenance equipment is outdated, making the operation of heavily loaded trains difficult. The quality of highway surfaces is poor, truck tonnages small, and fuel consumption high, all of which hurt returns from highway transportation. Internal waterway channels are in urgent need of dredging to increase their navigability. For railroad, highway, and water transportation alike, loading and unloading machines are seriously outdated. Civil aviation is still in a preliminary stage; capacity is small; foreign countries must be relied on to supply aircraft for main routes; and both airfields and control equipment are outdated. Second is the low level of transportation equipment design and manufacture. It is still necessary to rely on imports to a certain extent for advanced modern locomotives, trucks, ships, and airplanes. Unless a great nation like China has a strong domestic transportation equipment manufacturing industry on which its transportation system can rely, rapid and sustained development is impossible.

The low level of management shows up in lack of vigorous macrocontrol. Five different modes of transportation are under leadership of four departments. This dispersed administration does not make fullest use of transportation as a whole. The management methods used in transportation enterprises are based on experiences gained during the 1950's and 1960's, and modern management methods are not put to very good use. In addition, the poor quality of transportation management personnel is also an important reason for the low level of management and the poor quality of service.

5. Off the Mark. Economic returns are poor.

Both results from investment in the capital construction of transportation, and economic returns from the transportation system itself are fairly low. Specifically, the shortage of transportation capacity, and the lack of a sound management system have become factors restricting the national economy and leading to a lowering of national macroeconomic returns. Since 1984, the pile up of between 30 and 40 million tons of coal awaiting transportation in the Shanxi region alone has been an important reason for the energy shortage. Because of lack of energy, between approximately 20 and 30 percent of the country's production capacity has been unable to function, occasioning losses of more than 50 billion yuan each year. Transportation blockages also tie up large amounts of circulating funds. Statistics show as much as 54 billion yuan of working capital as being spent annually on the movement of freight in the country. When one considers the large amounts of goods stored in warehouses and accumulating in inventory as a result of blockages and slowdowns, economic losses will run to a tremendous figure.

Numerous reasons account for the above state of affairs in China's transportation industry. "Congenital defects" in the form of a weak foundation in the transportation industry, "follow-on dislocations" in the form of insufficient investment in transportation, and "outmoded

ideas" reflected in the failure to proceed from the basic concept of a modern, all-around transportation system having a rational structure, in the planning, management, and construction are, it is feared, several reasons.

Present State of the Country's Transportation Structure and Trend of Developments Abroad

A transportation system is a large system made up of five basic modes of transportation including railroad, highway, water, air, and pipeline transportation.

The internal structure of a transportation system generally means the role of each form of transportation (its transportation capacity, commensurate investment, and ability to satisfy demand) in the overall system, as well as the interrelationship among the various individual forms of transportation.

A rationally structured transportation system must satisfy the requirement of using a minimum expenditure of labor to provide finest quality service, when a certain amount of resources are available, in order to satisfy society's needs for transportation. Considered from the standpoint of the national economy, it must also provide good economic and social returns.

For some time, the planning, building and managing, and development of China's transportation system has been done largely by considering and making selections on the basis of the technical and economic features of individual modes, or on the basis of an inclination toward certain modes of transportation rather than on the basis of the transportation system as a whole, i.e., giving a high degree of consideration to how the technical and economic strengths of each mode of transportation play a role, and how each offers advantages in integrated development. In actual work, frequently traditional ideas about a transportation structure in which a single mode of transportation is dominant is used to analyze and deal with complex transportation system problems. During the past 30-odd years, the structure of the country's transportation has changed but little; its structure is now at the level of traditional transportation in developed countries before the 1950's.

1. The Burden on Railroads Is Unreasonably Excessive, and Full Use Has Not Been Made of Their Advantages for Intermediate and Long Distance Freight Transportation, and for Medium Distance Passenger Transportation.

At the present time, railroads carry more than 70 percent of the country's freight. Freight carried short distances of less than 100 kilometers still accounts for one-fourth of railroads' total transportation volume; and less than 50 kilometers for one-seventh of it. Railroads are used to carry long distance freight that could be carried by water

transportation. Seventy-eight percent of refined petroleum products suitable for pipeline transport are also hauled by railroads, only 1 percent going via pipeline. Highways are not used to the fullest for hauling freight short distances. In the passenger realm, railroads carry nearly 60 percent of passenger volume. This amounts to between approximately 30 and 40 percent of total railroad transportation volume, 20 percent of which is long distance passenger transportation better carried by air. For short distance passenger transportation too, the full potential of highways has not been tapped.

2. No Full Use of the Advantages of Water Transportation, Highway, Civil Air, and Pipeline Transportation.

The country's ample water transportation has not been put to full use. Freight volume for the 18,000 kilometer coastline averages only 13 million ton kilometers per kilometer. Nor has the potential of the country's 108,000 kilometers of inland river navigation channels been tapped, including the Chang Jiang, the Grand Canal, and the Xi Jiang. The main channel of the Chang Jiang carries a volume of only 12 million ton kilometers per kilometer. Nationwide, inland waterways carry an average of only 300,000 ton kilometers per kilometer. Civil airlines, which are suited to the transportation of passengers over long distances, are not as developed as they should be. Despite a substantial increase in recent years, transportation volume remains fairly low. Insufficient attention has been given to civil aviation as part of the transportation system. Flexible, speedy and convenient, portal-to-portal highway transportation, requiring small investment and having short construction cycles has also developed very slowly and is far from being able to satisfy needs for the economic development of cities and the countryside. Pipeline transportation also remains at a preliminary stage.

3. Increased Investment by Society and Increased Transportation Expense.

Lack of analytical methods of thinking about a modern transportation structure, plus shortcomings in the decision-making system have frequently resulted in "biases, duplication, and no integration" in the capital construction of transportation. For example, some places that might have used water transportation, also built railroads, but since transportation volume was small, a return could not be realized on their investment. Full consideration has not been given to the advantages and capabilities derived from the development of pipeline transportation, or to the economic advantages from carrying refined petroleum products by water. Instead, railroad transportation of large quantities of refined petroleum products has served to increase society's investment in transportation and to raise transportation expenses.

Failure to consider in an overall way the coordination of all modes of transportation and their rational development has resulted not only in less than full use of already

inadequate capital construction investment funds, but has also made an already irrational transportation structure more irrational, and has widened the gap between transportation and national economic development.

In the process of industrialization in some economically developed countries, advances in science and technology, the appearance of new modes of transportation, rises in the level of technical equipment and steady expansion of its use, changes in the economic structure and the industrial structure, a rise in people's consumption levels, and resulting changes in economic and social demand for transportation have given rise to a period of all-around development of all modes of transportation, and substantial changes in the transportation structure since the 1950's. Advances in industrialization, the level of economic and technical development, and differences in economic and industrial structures, as well as in the natural environment of individual countries, have shaped distinctive transportation structures suited to the situation in each country. Nevertheless, the general trend has been toward integrated development based on overall use of the technical and economic advantages afforded by all modes of transportation for fuller economic benefits.

1. Steady Decline in Railroad Transportation as a Percentage of Total Transportation Volume.

Between 1929 and 1981, railroad freight volume in the United States declined from 74.9 to 37.7 percent of total transportation volume. In the USSR during the period 1950 to 1980, railroad freight volume likewise declined from 84.4 to 55.8 percent of total transportation volume. In India between 1950 and 1977, the decline was from 88.3 to 67 percent.

Changes in the passenger transportation situation were even more marked. In 1981, American railroad passenger volume was only 0.7 percent, the railroads carrying virtually no passengers. Between 1950 and 1980, railroad passenger volume in the USSR declined from 89.5 to 37.3 percent.

With the advent of high speed railroads during the 1960's, in some countries, such as Japan, railroads carried large numbers of passengers traveling medium distances; nevertheless, the overall trend in railroad transportation has been toward decline.

2. Unusually Rapid Development of Highway Transportation.

In both the United States and the Soviet Union, highways have become the main avenues of short distance transportation, and they carry an increasingly large amount of high quality industrial manufactures, as well as fresh produce, such as fruits and vegetables, over medium and long distances. A look at changes in highway freight volume during the period 1950 through 1980 shows and increase in the volume of freight transported

over highways in the United States from 16.3 to 22.7 percent, in the FRG from 6.0 to 38.4 percent, in Japan from 8.4 to 40.7 percent, and in the USSR from 12.1 to 17.8 percent.

In numerous developed countries, highways have also become the main avenues for short distance passenger travel, and the volume of passenger travel over them has increased extremely rapidly. For example, during the period between 1950 and 1980 highway travel increased in the USSR from 5.3 to 43.7 percent, in Japan from 7.7 to 55.2 percent, and in the FRG from 40 to 60 percent. In the United States, it fell from 91.4 to 85 percent (as a result of the rapid development of civil aviation).

3. Taking Full Advantage of Water Transportation.

Thanks to technical improvements to waterways such as dredging, fuller advantage has been taken of the shipment of freight by water. For example, in the United States, between 1950 and 1980 the volume of freight shipped by water as a percentage of total freight volume rose from 15.4 to 16.4 percent; in the FRG it remained steady at approximately 24 percent; and in Japan, it increased from 39.4 to 50.7 percent. In the USSR, where inland waterways are frozen for long periods, and where the direction in which streams flow is not always the same as the direction in which freight moves, the volume of waterborne freight increased from 12.1 to 17.8 percent. Japan, the FRG, and the U.K. are fairly developed in terms of foreign trade, but their self-sufficiency in resources is fairly low; most of them have to be imported from abroad. At the same time, large amounts of goods have to be shipped to international markets. Numerous industries are located along the ocean and ocean transportation holds an important position in the transportation systems of these countries.

4. Pipeline Transportation Has Become the Main Way To Transport Natural Gas.

Pipeline transportation has the outstanding advantages of requiring little investment, a short construction cycle, occupying little land, being little affected by natural conditions, and having a large transportation capacity. It has become the main way to transport natural gas. Between 1950 and 1980 pipeline transportation as a percentage of total domestic freight transportation in the United States rose from 12.4 to 23.5 percent, and in the USSR from 0.7 to 19.4 percent.

Air transportation is a new force that has suddenly come to the fore.

Air transportation has become the main mode of long distance passenger transportation in developed countries, and it is steadily becoming faster, more comfortable, and more convenient. The volume of domestic

passenger transportation has increased extremely rapidly. In the United States, for example, the volume of domestic air transportation rose between 1950 and 1980 from 0.9 to 14 percent, and in the USSR from 1.2 to 18 percent.

[Oct 88 pp 9-11]

[Text]

Systems Engineering Method for Building a Rational Structure for a Transportation System

A modern integrated transportation system is a large system in which the five modes of transportation, namely railroads, highways, water, air, and pipeline transportation are coordinated. It is a sub-system within the larger system of the entire national economy.

1. Transportation systems, like other systems, have the following characteristics:

Goal Orientation

Transportation systems are markedly goal-oriented in two regards. First, they promote the development of productivity. Though transportation systems are themselves productive forces, in productive economic activity, they mostly shoulder the burden of and give impetus to the flow of passengers, goods, and information. They do not produce tangible commodities, but only provide a "usefulness" that is an intangible product. Nevertheless, as a transportation product, in the course of movement through space, and as time goes by, transportation systems either continue the completion of the production process, or cause products to flow from the production process into the marketing realm, or vault across space (areas) to configure productivity in a rational way, effectively using various resources in the formation of a socialized production process. Therefore, transportation plays a part in the production of socially useful products, and in the creation of national income. Transportation is a fundamental means for continuously adding value to products or conserving social labor.

Yet another goal is service to society. It is a requirement for people's ordinary work and production; it is a basic activity on which society relies for its existence and development; and it is a material support on which human civilization depends for its development.

Adaptability

As a sub-system, transportation has to have a corresponding and coordinated relationship with the large system of the national economy. This is manifested in the following ways:

(1) The needs of the national economy and the ability of transportation to provide them must be synchronized, and the investment that the national economy provides must also be synchronized with the building of transportation

capabilities. When considering investment in the capital construction of transportation, attention should be given to certain features of transportation systems, namely, the lead time required for investment, the delay in obtaining results from the investment, and the need for an ample reserve capacity. (Once built, transportation capacity cannot be increased for a fairly long time, but transportation requirements increase steadily; consequently, strategically speaking, a certain reserve transportation capacity has to be built in advance.)

(2) Suited to natural conditions and resources.

(3) In keeping with the level of national social and economic development at different times. At the present time, China's level of productivity is relatively low, and its transportation foundation weak. Therefore, while desiring substantial development of transportation, it is not possible to provide adequate funds for that purpose ahead of time. Furthermore, it takes a long time to see results from such investment, so this poses an extraordinarily pronounced conflict.

(4) In keeping with the level of national technical development. The modernization of basic transportation facilities and equipment has to be in keeping with the country's level of technology. In long-range terms, China cannot spend large amounts of capital on the purchase of large quantities of transportation equipment in order to modernize its existing transportation system. Instead, it has to augment and strengthen domestic transportation manufacturing industries as a basic means of insuring modernization.

Completeness

By completeness is meant a quest for complete returns from the system. Complete returns from a system should be greater than, or no less than, the simple algebraic sum of returns from each of the parts that make up the system. Attainment of these results requires the use of systems engineering methods in planning, designing, organization, and management; otherwise, complete returns from the system cannot be obtained automatically.

Returns from the system include both economic returns and social returns. Economic returns are both macroeconomic and microeconomic returns. By microeconomic returns is meant economic returns from the transportation system (or sector) itself, which are expressed in terms of profits, investment results, transportation costs, and output value. Macroeconomic returns applies to returns from the standpoint of the national economy, namely the economic returns the country derives from the impetus to national economic development provided by the transportation system. Attention has to be paid to the effect of transportation on other industries or regional economies, and the savings realized in working capital nationally. This may be expressed in terms of gross output value, national production income, or labor productivity rates.

When considering economic returns from transportation systems, particular attention should be given to the value of time. Most countries today unanimously acknowledge that between 70 and 80 percent of the economic return from transportation is embodied in the value of time. The USSR's transportation sector believes that for every day and night that the arrival time of a rail shipment is shortened, 2.4 billion rubles of value is created. Calculations made by the USSR's office in overall charge of transportation show an annual loss of 6.5 billion rubles as a result of the inability of transportation to satisfy the needs of industry, and that agricultural losses resulting from failure to ship products promptly amount to an annual 4 billion rubles, the two amounting to approximately 1 percent of the gross output value of society.

Coordination of the System's Internal Structure

Getting full returns from a system requires the coordination of all sub-systems. Such coordination is manifested both in full use of individual sub-systems, and even more so in attention to total system benefits deriving from the coordination of sub-systems. As applied to transportation systems, this means taking full advantage of the economics of technology from each form of transportation, and doing a good job of coordinating the division of labor among the various forms of transportation.

Indices of the economics of technology for various forms of transportation based on rough calculations are shown in tables 1 and 2.

Table 1. Major Economics of Technology Indices For Railroad, Highway, and Air Passenger Transportation

Mode	Transportation Cost Yuan/1,000 Passenger Kilometers	Investment per Unit of Capacity Yuan/1,000 Passenger Kilometers	Energy Consumption (Refined Petroleum) Yuan/1,000 Passenger Kilometers	Speed Km/Hr
Railroad	10.8	150-220	3.5	40-80
Highways	10-12	50-70	3.3-4.0	40
Air	56-68	150	56-65	500-900

Table 2. Major Economics of Technology Indices For Railroad, Water, and Pipeline Freight Transportation

Mode	Transportation Cost Yuan/1,000 Ton Kilometers	Investment per Unit of Capacity Yuan/1,000 Ton Kilometers	Energy Consumption (Refined Petroleum) Yuan/1,000 Ton Kilometers	Speed Km/Hr
Railroad	9.3	90-110	4.5	30-40
Water: Coastal	3-4.5	60-70	2.5-4.4	20-30
Yangtze	5-10	50-60	4.3-4.5	12-18
Pipeline	7-10	50-80	5	-

The economics of technology indices for each mode of transportation can be used to determine the economical transportation distance for each mode.

Therefore, depending on the nature and character of the cargo (freight or passengers) as well as transportation requirements, a good job in coordinating the division of labor can be done by using the economics of technology of each mode of transportation, the cargo to be transported going via the shortest route, through the fewest number of changes, in the shortest time, and at the lowest cost for completion of the transportation task in a timely, harmonious, and high quality fashion. This is the basic guiding principle for evaluating the coordination of a transportation system's internal structure.

System Dynamics

System dynamics means how a system changes over time, including the effect of changes in the system environment on the system's internal structure, and changes over time of the economics of technology of each sub-system within the system.

Under most circumstances, factors such as technical progress can bring about changes in the economics of technology of various modes of transportation, and then competition in terms of economic advantages from technology occurs among the various modes of transportation. This is accompanied by fluctuations in the internal structure of transportation systems, which subside after a period of time.

Planning, designing, and managing of China's transportation system has to be done with an eye to the country's social, economic, and technical conditions, full consideration being given to the economics of technology and

dynamic changes in various modes of transportation, thereby enabling the structure to adjust to technical progress over a fairly long period of time.

2. Basic Analytic Methods Used

The elements affecting the structure of a transportation system are very complex and difficult to quantify completely; therefore, a combination of qualitative and quantitative analytical methods are used.

Qualitative analysis uses the methods of representative sampling, random sampling, expert surveys, and logical deduction to quantify a qualitative problem.

Quantitative analysis uses economic measuring methods, systems structure optimization methods, fuzzy mathematics, multiple target decision analysis methods, mathematical planning methods, and gray system forecasting methods, as well as systems simulation methods.

Model building methods for finding solutions are frequently employed as a quantitative analysis method. For convenience in the use of some classic analysis methods, frequently various hypotheses are used to simplify influencing factors in the model building process. The results thus obtained are able to reflect only some of the main facets or aspects of actual problems. For comparatively complex problems, multiple models are used that reflect different aspects of the same problem to derive multiple "solutions." Then policy making guidelines are used to select a "satisfactory solution" or a "quasi-satisfactory solution" that meets various conditions to serve as a basis for decision making analysis.

3. Some of the Main Data Derived

Table 3 presents economic criteria for passenger travel in a rational transportation structure in China. Table 4 presents some units' percentage forecasts on the volume of passenger travel in 2000.

Table 3. Passenger Travel Economic Indicators in a Rational System

	Railroads	Highways	Water	Civil Air (Domestic)	Civil Air (International)
Average Travel Distance (Km)	400-500	50-	130-210	More than 800	More than 5,000
Kilometer Variance in Travel Distance Distribution	180-190	40-50	160-175	500	
Proportional Structure in Total Travel Volume	7-10	80-90	3-5	0.65-0.9	0.01-
Percentage of Total Volume	4-50%	4-50%	3-5%	7.5-10%	-

Table 4. Percentage Forecast of Passenger Volume for Various Modes of Travel

1980	60%	32%	5.6%	1.8%
2000	44%	49%	3%	4%

We believe the forecast values for civil air travel given in Table 4 are somewhat low. If attention can be given to the development of civil aviation on the basis of the requirements of a rational structure, and investment

appropriately increased, air passenger travel may account for approximately 8 percent of total transportation.

Vigorous Development of Air Transportation and an Aviation Manufacturing Industry

For some time to come, China's railroad, road, water, and pipeline transportation will have to be substantially developed, and railroads will continue to bear the main burden for both passenger and freight transportation. Nevertheless, in view of the need to build rationally structured transportation, we will have to optimize the

combination of transportation modes, do overall planning that takes account of all factors, and coordinate development. It is particularly necessary to consider fully the economic advantages of technology for air travel and use it rationally so that the country's transportation develops into a rationally structured, modern, and complete transportation system that gets a full return on investment, thereby enabling transportation gradually to meet needs in development of the national economy.

1. Full use of the advantages of air travel is the most effective way to get the best return on investment and to improve the country's transportation structure.

Air travel has become a mode of passenger transportation to which every country in the world is giving serious attention, and it has become the main mode of long distance passenger travel. Air travel has the advantages of being fast, highly efficient, safe, and comfortable. In addition, it requires little investment, and the production cycle is short.

Everyone is aware of the speed of air travel, and that the longer the distance, the greater the advantage from speed. The more developed an economy, and the more advanced a commodity economy, the greater the importance of time benefits, and the greater the importance of time benefits from air travel. This is the reason for the rapid development of air transportation in recent years in large developed countries (such as the United States and the USSR), as well as in some large developing countries (such as Brazil and India), and it is also one important reason why air travel in China has increased by more than 20 percent each year as the policies of reform and opening to the outside world have become more pervasive.

With the increase in passenger volume, fast, large model transport planes have been put on air routes, and the efficiency of air travel has become greater and greater, particularly for long distance passenger travel.

The saving in investment, and the short construction cycle are manifested in air travel being primarily travel between points, so the main cost—other than for the purchase of aircraft—is for airfield construction. Table 1 shows that air travel capacity per unit of investment is equal to or lower than that of railroads. New construction of a first class, single runway airfield from which large aircraft can take off costs between 200 and 300 million yuan, and uses up 5,000 mu of land. This is approximately equivalent to the investment required to build 75 kilometers of railroad, and the amount of land used to build 100-odd kilometers of railroad. Furthermore, the time required to build the airfield is much shorter.

Other advantages show up in the rather high rate of foreign exchange earnings from air travel, few problems resulting from topography, and high mobility.

2. Development of air travel is an urgent need in development of the country's economy.

As the country's policies of reform and opening to the outside world become more pervasive, as the city and countryside economy burgeons, and as both foreign trade and tourism prosper, the objective need for air travel increases steadily. Full attention to and development of air travel, with a rational division of labor between it and other modes of travel, is an apt way to solve the current transportation shortage, and particularly to moderate the passenger transportation shortage. In view of the situation in China, air transportation should have the following missions: domestic long distance passenger travel (800-1,000 kilometers or more); medium and short distance passenger travel from all large cities to principal tourist sites; medium and long distance passenger travel to places not suitable for railroad or water transportation because of various terrain features; medium and long distance transportation of special kinds of freight; international passenger travel; and transportation of precious, urgently needed, or fresh and live cargoes.

Advance development of air travel is in keeping with the country's new economic development, and the need to carry out an externally oriented economic strategy in coastal areas. We intend to institute an economic development strategy in coastal areas of "large scale imports and large scale exports," and "putting both ends abroad," developing a socialist commodity economy that is guided primarily by domestic and foreign markets, and that is controlled primarily by the market mechanism. Development of coastal areas will have a positive effect on the economy of the central and western parts of the country, and can cause substantial changes in the economic structure of eastern, central and western China, and in the development of a market and a commodity economy. The flow of passengers, freight, and information among all regions, markets, cities and the countryside within the country will be speeded up and will also increase in volume. This will require a convenient, fast, flexible, and economically highly efficient transportation system as a basic support. According to the experience of many economically developed countries and developing countries and regions, the building of a highly efficient, low cost transportation system is a key element in economic development and takeoff.

Since China instituted a policy of opening to the outside world, it has vigorously organized the export of labor, and large numbers of laborers will be transported mostly by air.

Domestic demand for air transportation will become greater and greater. Reportedly, the volume of air travel in China has increased at a steady 20 percent during the past several years, and it is estimated that by 2000, air travel will account for between 4 and 10 percent of all travel. As the country's commodity economy develops,

inevitably large numbers of people will be on the move. A World Bank economic fact-finding group has estimated that by 2000 the volume of population movement in China will be five times what it is today. Once restrictions on air travel have been lifted, per capita income rises, and people have a greater sense of time, the demand for air transportation will increase explosively.

Ever since 1978, China's tourist industry has maintained a fairly high speed of increase. Organized hosting of tourists has averaged a 20 percent per year increase nationally, the annual rate of increase for foreign tourists reaching 26.2 percent. In comparison with other countries of the world having a developed tourist industry, China's abundant tourist resources are vastly underutilized, and tourism is on the rise. Development of tourism means that various service industries and transportation must be developed simultaneously. Speedy and comfortable aircraft have become indispensable means of transportation in the development of tourism.

3. Vigorous Development of a Civil Aircraft Manufacturing Industry To Promote Development of Air Travel

Currently, China's civil aviation administration has approximately 160 major transport aircraft. Except for a small number of feeder line aircraft, all large trunk line aircraft have been manufactured in foreign countries. Major transport aircraft larger than the AN-24, and the Yun-7 number fewer than 100, less than 3 percent the number in the United States and the Soviet Union. Furthermore, aside from a small number of fairly advanced aircraft such as the Boeing 737, 747, 757, and 767, the remainder are all products of the 1950's and 1960's. Such a small size transport airplane corps of not very high technical quality can shoulder the ever increasing need for transportation only with difficulty. In order to meet the developing situation, the airplane corps must be strengthened, augmented, and updated. Authorities concerned predict that by the year 2000 the number of civil aviation aircraft will increase to more than 400, including between 150 and 200 trunk line aircraft (upward of 150 seats). Between 2005 and 2010, explosive growth may occur in the volume of the country's air travel. At that time, aircraft quantity and quality requirements will be higher.

From both a political and an economic standpoint, as well as in terms of the development of high technology, a large country such as China cannot rely for a long period on the importation or leasing of foreign aircraft for the modernization of air travel. It must develop its own civil aircraft manufacturing industry to insure continued and speedy development of air transportation.

Development of the country's own civil aircraft manufacturing industry will bring about huge savings in the country's investment in the transportation industry. Use of advanced Chinese manufactured aircraft will greatly

decrease transportation costs, the civil aviation sector will thereby increase economic returns, and strengthen its self-development capabilities.

The country's aviation industry already possesses the required capabilities and conditions for developing civilian aircraft both in terms of technical forces, design and production capabilities, and in terms of technical manufacturing facilities or scientific research test bases and testing techniques. Under present circumstances, even though undertaking research and development of advanced trunk line aircraft still poses substantial difficulties, if we are to build a truly independent all around, modern transportation system, and genuinely industrialize, China must begin this strategic task at once. However, China's aviation industry is facing the stage of strategic shift in development policy from "a combination of military and civilian in which the military is paramount" to "a combination of civilian and military in which the civilian is paramount." Development of an aviation industry should be the main task. Next, unless we begin to come to grips with this task right now, it is possible, in view of the specific circumstances of the aviation industry in China, that the corps of aviation technicians that is already in existence may disperse, and that research and development forces already in existence may be weakened. Specifically, the first group of technical forces trained in China is already gradually leaving the production and scientific research front, and their experience is also "being lost as people depart." The industrial and technical bases in being are "collapsing." Unless such a tremendous invisible technical force and resources are promptly used and strengthened, huge losses of historical proportions will result.

The country's aviation industry should make the development of advanced trunk line aircraft its strategic focus and give simultaneous attention to the development of feeder line aircraft, special purpose aircraft, and helicopters. It should make full use, primarily inside China, of conditions created by opening to the outside world, using the importation of technology and international cooperation as means for gradual independent development of modern China-produced aircraft.

Development of civil aircraft will require that the country set up special organizations for overall planning and coordination, and have the needed investment. At the same time, it will be necessary to institute a series of policies to foster and safeguard the aviation industry, as well as a series of preferential policies for the development of civil aviation.

Shortage of Vessels Affects Shipping Business *HK3010080888 Hong Kong HSIN WAN PAO in Chinese 29 Oct 88 p 3*

["Special Feature" by Wen Po 2429 3134: "Shortage of Ships Affects China's Shipping Business"]

[Text] Shipping enterprises engaged in ocean-going and inland water transport of major goods and materials under the direct jurisdiction of China's Ministry of

Communications are seriously troubled by a scarcity of vessels. This difficulty has already blocked the development of China's shipping business.

Drastic Rise in the Volume of Passenger-Cargo Transport

The great scarcity in passenger vessels along the coast has resulted in difficulties in maintaining some of the shipping lines, with the imminent danger of their total termination. The Ocean Shipping Administrations in Shanghai, Guangzhou, and Dalian under the jurisdiction of the Ministry of Communications are in charge of the passenger-cargo transport along the coast. At present, 21 navigation lines for passenger transport with some 44,000 seats in 55 passenger vessels are in operation. The annual transport capacity is 6.85 million passengers. However, in 1987, the actual volume of passengers was 8.16 million, exceeding the transport capacity by 1.31 million passengers. In the first six months of this year alone, the volume of passengers rose by some 20 percent over the same period last year.

Decline in the Capacity for Passenger Transport

Great strains are keenly felt in Bohai Bay at present. Of the 14 existing passenger vessels, seven were built before the 1960s, and should have long been replaced. Every day, some 1,000 passengers are kept at the ports for failure to get tickets on the Dalian-Yantai navigation line.

The volume of passenger transport has gradually risen with each passing year, while the transport capacity has declined at an annual rate of 6 percent. It is assessed that 29 new passenger vessels must be filled in by 1990. Otherwise, coastal passenger transport would be terminated before long.

Strains on Coal Transport

The strains on transport of energy resources along the coast are keenly felt. Based on the forecast of the Ocean Shipping Administration under the Ministry of Communications, coal to be conveyed to East China and South China in 1989 and 1990 will be increased at an annual average rate of 10 million tons, and the volume will be 63 million tons in 1990. The fulfillment of such volume of cargo involves vessels with a tonnage of 1.26 million. Ocean Shipping Administrations of these two regions are planning to scrap energy resources-conveying vessels with a tonnage of 970,000 in the next two years. Even new vessels in this category built by Chinese and foreign shipyards will amount to a tonnage of 590,000, the shortage of such vessels with a tonnage of 1.22 million remains unsolved.

The scarcity in ocean shipping vessels has gradually become acute. The Iraq-Iran cease-fire accord has brought vitality to the world shipping business. At present, it is rather difficult for China to purchase vessels abroad. The prospects are none the brighter for China's

own ship building industry. It is disclosed that to date none of the contracts have been signed concerning the building of ocean-going vessels with a tonnage of some 400,000 by Chinese shipyards as listed in the Seventh Five-Year Plan. With the marked rise in the ocean shipping volume in foreign trade, the contradictions derived from the scarcity in ocean going vessels will become increasingly acute.

Difficulties Involved in Purchasing Ships Abroad

Shortage in vessels of medium or small tonnage are all the more keenly felt. Such a condition has gravely affected the transport of timber in the northeast. The scarcity in tug boats in all ports along the Chang Jiang has created a great problem for production in all ports.

Where does the cause for the universal scarcity in vessels in shipping departments lie? It is believed that the curse lies in the unfavorable state's policy and the lopsided attention of shipyards on building vessels for export.

Unwillingness To Build Vessels for Home Use

The state has allowed few preferential policies for shipping enterprises, with some stipulations even being irrational. For example, Chinese shipyards building vessels for export may enjoy such preferential treatments as exemption from tariff and appreciation tax. However, ocean going vessels built with expenditures in foreign exchange by Chinese shipyards for home use do not enjoy such preferential treatments. Consequently, Chinese shipyards are always ready to build vessels for export, but are most unwilling to build ships for the home market. Such practice accounts for the fact that to date none of the contracts have been signed concerning the building of ocean-going vessels with a tonnage of some 400,000.

Restrictions on Readjusting Carriage Charges

Moreover, the state has paid no heed to the drastic rise in vessel prices, while adopting a silence-means-consent attitude. On the contrary, it has restricted the readjustment of passenger-cargo carriage charges under various pretexts. Besides, Chinese shipyards now have decision-making power on building vessels for export or for home use, but the shipping enterprises have very little decisionmaking power. The great scarcity in vessels has resulted in a decline of the shipping business.

Concerning signing contracts on ship building, the Ministry of Communications submitted a special report to the State Commission for Planning, requiring Chinese shipyards to make arrangements for building vessels with a tonnage of 1.4 million, to convey natural resources. However, while contracts on the building of vessels with a tonnage of 280,000 have been signed, the rest are still suspended because of differences in prices

between the parties concerned. Because of the ineffective mediation of responsible departments, the contradictions have remained unrestled so far.

Rise in Building Cost of Vessels

Average ship building cost was between 800 and 900 yuan per ton prior to 1980, it rose to 2,000 yuan last year. It has risen again by 20 percent this year on the 1987 basis. Such a large price rise has added heavy economic burdens on the enterprise, which has to depend on loans to order vessels, and finds it very difficult to get the loans.

Shortage of Funds for Purchasing Vessels

Great difficulties are involved in getting funds to purchase vessels. Before 1984, the state was responsible for allocating funds to building vessels for clients and patrol boats for port supervision. Since 1985, the practice has changed to vessel users applying for loans for the purchase from the bank. During the Sixth Five-Year Plan, the state annually allocated funds between 200 million and 300 million yuan to building vessels for clients, but in the first three years of the Seventh Five-Year Plan, an average annual 70 million yuan was arranged for vessel purchase loans. This way, vessels in urgent needs could find a way to make arrangements for their construction.

The procedures in sanctioning the purchase of second-hand vessels from abroad can be overly elaborate. Should responsible departments at home shake their heads, a greenlight for the purchase will be quite impossible even for those that are badly needed in production and transport.

Personalities in shipping circles are all worrying about the prospects of China's ocean-going transport should things go on like this.

More Railways Built in Northwest Region

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0758 GMT 22 Oct 88*

[Text] Lanzhou, October 22 (XINHUA)—The railway network in northwest China now total over 9,000 kilometers in length with several new lines added in the last ten years, a railway official said here today.

Among the new lines is the 683.7-kilometer Hargai-Golmud line, which opened to traffic in August 1984. As a section of the planned Qinghai-Tibet Railway, the line is built on the Qinghai-Tibet Plateau and at least 3,000 meters above sea level.

Another major line added in the last ten years is the Turpikakorla line, which is part of the Southern Xinjiang Railway. As the second trunk line in Xinjiang, the 476-kilometer line runs pass deserts and the Tianshan Mountain.

Now under construction in Xinjiang is the 460-kilometer Northern Xinjiang Railway, which will be linked with a railway network in the Soviet Union.

In the last ten years, the state has also spent some two billion yuan to upgrade the existing railways in north-west China.

Expansion of Electrified Railway Track Length

*OW3010031888 Beijing XINHUA in English
0707 GMT 28 Oct 88*

[Text] Beijing, October 28 (XINHUA)—By the end of this year, a total of 6,185 kilometers of track will have been electrified, an official from the Railways Ministry announced here today. That is about one-eighth of the entire network.

The first electrified railway was put into operation in 1961. By 1978 just over 1,000 km of track had been electrified, mostly in the southwest of the country.

During the Sixth Five-Year Plan (1981-1985), 2,459 km of electrified rails were built. The process has been intensified during the current five-year plan, he said. "Construction of the Zhengzhou-Baoji, Beitongpu, Zhengzhou-Wuhan, Yingtan-Xiamen, Hunan-Guizhou and Sichuan-Guizhou electrification lines is well underway."

The first phase of Datong-Qinhuangdao double-track, heavy-loading line, the most updated electrified railway in China, was completed on Wednesday. This project is a state priority to transport coal from Datong in Shanxi Province to the coast. The new line will start moving coal to Qinhuangdao port by the end of this year.

Electrified Railway Lines To Reach 6,185 KM

*HK3110095588 Beijing CEI Database
in English 31 Oct 88*

[Text] Beijing (CEI)—China has extended its mileage of electrified railway lines six times during the past ten years, and such lines are expected to reach 6,185 km by the end of the year, some 11.68 percent of the total, according to the Ministry of Railways.

Work on the first electrified line in China started in 1958, and it was opened to traffic in 1961. This was the 91 km stretch from Baoji TO Fengzhou in southwest China.

IN 1978 there were only 1,026 km of electrified lines in the country, but during the period of the sixth five-year plan (1980-1985), China built 2,459 km of electrified lines.

Since the beginning of the seventh five-year plan (1986-90), work has been progressing on another 4,000 km of new electrified lines.